Surrey Metro Savings

Annual Report 1996

celebrating 50 years

of partnership with the community

Surrey Metro Savings was incorporated in 1947 and has grown to become Canada's second largest Credit Union, with more than $1.8 billion in assets. ¶ The Company provides a full range of retail banking services. It also operates a Commercial Lending Unit. Surrey Metro Savings provides its services through 17 retail branches and a centralized telephone call centre serving the communities of Surrey, Langley, Fort Langley, White Rock, Delta, Abbotsford, and Chilliwack. These communities comprise the Fraser Valley region, with a population of approximately 700,000. It is one of the fastest growing areas in Canada. The region's population is expected to grow by about 15% during the next five years. ¶ The Company also owns Metro Insurance Services Ltd., which operates five insurance offices, and Shoreline Projects Ltd., a property development subsidiary. Surrey Metro Savings is incorporated under the Credit Union Incorporation Act of British Columbia and also operates under the regulations of the Financial Institutions Act of British Columbia. At Surrey Metro Savings depositors are protected up to $100,000 by the Credit Union Deposit Insurance Corporation of British Columbia. The Company is an investor-owned institution with Non-Voting Shares listed on The Toronto Stock Exchange and trading under the symbol SMS.

Celebrating 50 years

Surrey Metro Savings celebrates its 50th Anniversary in 1997. From our humble beginning in 1947, when 41 people invested ten dollars to establish the organization, we have grown to become the second largest credit union in Canada and the largest locally based financial institution in the Fraser Valley.

Our success is rooted in the loyalty and trust of the many thousands of customers, past and present, who have chosen Surrey Metro Savings as their financial institution. Our growth is reflected in the development and prosperity of the region. While we have seen many changes and achieved numerous milestones during the past fifty years, one objective has remained constant – our commitment to the people and communities we are so proud to serve.

1947-1997

Corporate Highlights

Private Placement of Subordinated Notes

In October, the Company completed the private placement of $10 million in subordinated notes with two Canadian life insurance companies. The proceeds from this financing increased the Company's Tier 2 Capital and was added to the general funds of the Company.

Preferred Share Offering to Customers

The Company increased its Preferred Share capital by approximately $5 million through a promotional offering to customers. Preferred Shares have a par value of one dollar, offer a rate of return equal to the average of prime for the year and are only available to a maximum investment of $1,000 to Surrey Metro Savings customers. The shares are non-transferable and are not traded on a securities exchange.

Call Centre Fully Operational

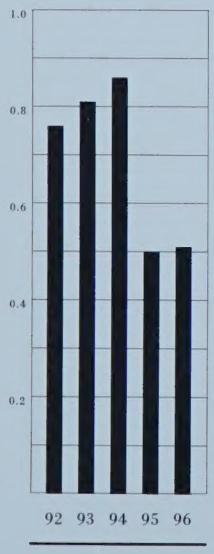
The centralized telephone Call Centre which was opened in December 1995 became fully operational during 1996. All branches were linked to the Call Centre by mid-year. Customers now call one centralized telephone number and can conduct many of their transactions by phone. The Call Centre provides efficient service for the customer, removes some routine transactions from the branches, and provides opportunities for outbound sales efforts.

Business Process Redesign Project Completed

The Business Process Redesign Project, which began in 1995 and was reported on in last year's Annual Report, was completed during 1996. This project, which involved several teams of employees, resulted in the identification and implementation of a number of cost saving initiatives. Management will continue to monitor the results of the process and look for additional methods of cost control.

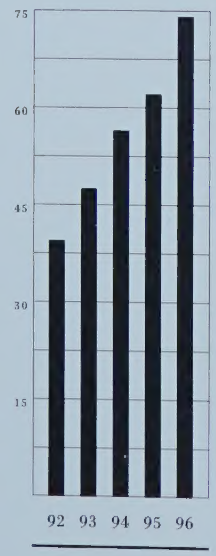
New Sales Training Program Initiated

The Company continued its emphasis on sales development with the introduction of the third level of the Sales Odyssey training program. This program provides ongoing development of sales and service skills for our employees, ensuring that Surrey Metro Savings continues to enhance its service levels.



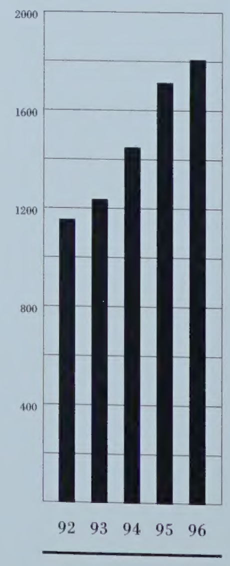
Return on Average Assets
in percent

ROAA improved slightly due to improved earnings.



Shareholders' Equity
in millions of dollars

Shareholders' Equity grew by 19.4% as a result of earnings, and an increase in preferred shares.



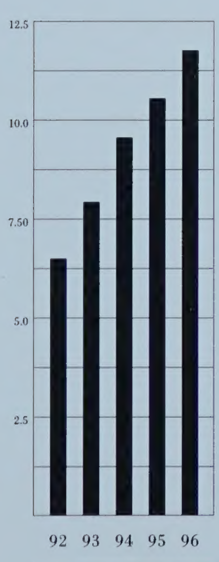
Assets
in millions of dollars

Asset growth was 5.5%, compared with 18.3% for 1995, reflecting the overall slow-down in B.C.'s economy.

Financial Highlights

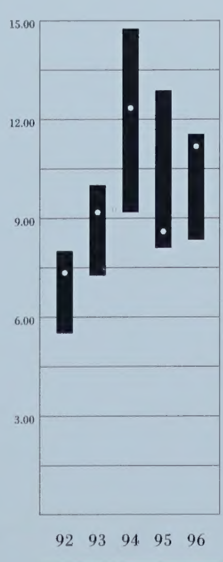
December 31	% Change	1996	(RESTATED)[1] 1995
in thousands of dollars BALANCE SHEET			
Assets	5.5	**1,808,167**	1,714,527
Loans	7.2	**1,548,486**	1,444,649
Deposits	6.0	**1,611,670**	1,520,756
Shareholders' Equity	19.4	**74,128**	62,066
in thousands of dollars RESULTS OF OPERATIONS			
Net Interest Income	14.4	**43,463**	37,977
Other Income	10.5	**13,235**	11,975
Non - Interest Expenses	11.6	**43,584**	39,059
Net Income	14.9	**9,105**	7,921
FINANCIAL STATISTICS			
in percent Operating Efficiency		**76.90**	78.20
in percent Return on Average Equity		**14.42**	14.02
in percent Return on Average Assets		**0.51**	0.50
in dollars Earnings Per Share[2]		**1.61**	1.40
in dollars Earnings Per Share Fully Diluted		**1.59**	1.39
DIVIDENDS			
in percent Preferred Shares		**6.19**	8.65
in dollars Non-Voting Shares		**0.40**	0.40
in dollars NON-VOTING SHARES			
High		**11.55**	12.88
Low		**8.40**	8.13
Close (December 31)		**11.20**	8.63
Book Value		**11.75**	10.54

1 See Note 2 of Notes to Consolidated Financial Statements, page 41.
2 Based on weighted average of non-voting shares. 5,663,672 issued as at December 31, 1996.



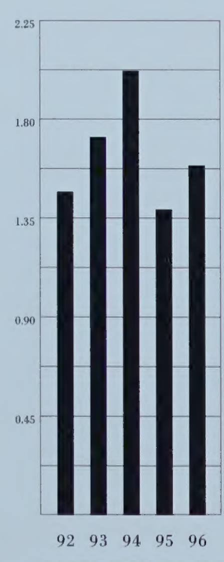
BOOK VALUE PER NON-VOTING SHARE
in dollars

Book value increased by $1.21 as a direct result of earnings retained during 1996.



NON-VOTING SHARES TRADING RANGES
in dollars

○ close (Dec. 31)



EARNINGS PER NON-VOTING SHARE
in dollars

Declining interest rates, a relatively strong real estate market, and higher fee income contributed to improved earnings and earnings per share.

Report to Shareholders

SURREY METRO SAVINGS experienced growth in all key areas of operations during 1996. A declining interest rate environment, a relatively strong real estate market, and higher fee income contributed to significantly improved earnings over those achieved in 1995.

EARNINGS

Net earnings for 1996 were $9.1 million, up 14.9% from the $7.9 million achieved in 1995. The Company changed its accounting policies in 1996, and the 1995 results have been restated to reflect this change. (See Note 2 of the Notes to the Consolidated Financial Statements on page 41 and the Overview section of the Management's Discussion and Analysis of Financial Condition and Results of Operations on page 26.) Earnings per share for 1996 were $1.61, compared with $1.40 for 1995.

The low interest rates which prevailed throughout 1996 supported loan growth. Declining interest rates during the year also had a positive impact on net interest income as deposits repriced at lower interest rates earlier than loans.

BALANCE SHEET HIGHLIGHTS

Total assets as at December 31, 1996 were $1.8 billion, up 5.5% from $1.7 billion in 1995. Loans increased by 7.2% to $1.5 billion, while deposits grew by 6.0% to $1.6 billion. Shareholders' Equity grew by 19.4% to $74.1 million. A detailed discussion of our financial results is included in the Management's Discussion and Analysis section which begins on page 26 of this annual report.

KEY INITIATIVES

All of the key initiatives discussed in last year's Annual Report continued to be priorities in 1996 and all progressed or were completed during the year. 1995 was a year of great activity as we opened retail branches, insurance offices and the Call Centre. 1996 was more a year of consolidation as our emphasis was on developing these new resources so that they would make a positive contribution to the business and earnings.

Despite a highly competitive marketplace and a low interest rate environment that hampered deposit-building, the three new retail branches that were opened over an eight-month period from late 1994 to mid-1995 achieved significant growth in 1996 and each has reached profitability earlier than anticipated. The new insurance offices also demonstrated strong business growth in 1996, and the financial planning services offered through Metro Insurance Services Ltd. are making a positive contribution. We will continue to expand this area of our operations.

The Company opened its Call Centre in December 1995. This facility is a state-of-the-art operation and its role and importance grew throughout 1996. The Call Centre provides

"Surrey Metro Savings experienced growth
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increased efficiency, customer convenience, and enhances our sales efforts. Once the Call Centre was fully operational, with all branches linked to it by mid-year, the Company launched a major marketing campaign with the slogan "One call does it all." The purpose of the campaign was to familiarize customers with the single phone number which they could now call to conduct much of their banking. Customers using the Call Centre can conduct many transactions, including transfers, loan applications, balance enquiries, RRSP contributions, and bill payments. The Call Centre provides tremendous convenience to customers who can now access their accounts and receive product information from their home, office or even on vacation. It also removes routine transactions from the branches, enabling branch staff to devote more of their efforts to personalized sales and service to customers in branch. Finally, the Call Centre has begun to play a key role in sales programs as it provides an opportunity for us to contact customers directly during targeted campaigns. This is especially important as banking technology increases and many customers visit branches less often.

The "mature" branches in our system continued to make a significant contribution to our corporate objectives. While technology continues to grow in importance, the branches remain the core of our business. During 1996 we implemented a number of process changes, coming out of our Business Process Redesign project, which increased the efficiency and effectiveness of the branches. We successfully removed some of the bureaucracy and time consuming procedures that often develop as an organization grows. Once again, such streamlining enabled employees to concentrate more of their efforts on interaction with our customers, which, of course, is the more productive and satisfying element of their jobs.

The Business Process Redesign project, begun in the fall of 1995, was completed during the third quarter of 1996. This process was successful in identifying a number of opportunities for cost savings and other efficiencies which we are undertaking. While this was a time-limited initiative, the Company is committed to maintaining a spirit of innovation and review.

Sales and service training and enhancement continues to be a major focus for the Company. We launched a major new training initiative in 1996 which builds upon the skills and talents of our employees. We believe that by continually upgrading and improving our skills, we will remain at the forefront of service quality. We also began the roll out of a relationship banking program in which selected employees in each branch develop on-going service relationships with our top customers.

Community Involvement

Surrey Metro Savings continued its long-term commitment to the community. The Company donated $151,000 through its Community Involvement Fund to more than 50 organizations. The

Fund regularly supports all of the hospitals in the Company's trade area, provides scholarships to all senior secondary schools, sponsors the Surrey Festival of Dance, and allocates funds to multi-service agencies in each community. The Company also has a long history of support to the United Way. In 1996, Surrey Metro Savings employees donated $61,600 to United Way, earning their eighth consecutive Gold Achievement Award. The Company won the United Way's Spirit Award for the second year for one of the best employee campaigns in the Lower Mainland.

While the Community Involvement Fund is the primary source of funding support to community organizations, the Company provides further sponsorship of community events through various marketing and communications initiatives. These include major sponsorships of events such as the Surrey Memorial Hospital Run For Health, the Arts Club Theatre's Surrey series, and the Chilliwack Children's Festival.

Board of Directors

The Credit Union's Rules stipulate that a Director may only serve on the Board for nine consecutive years. At our Annual General Meeting in May, Tom Kirstein will have achieved this milestone and will be stepping down from the Board. Mr. Kirstein served as Chairman for three years, and during his nine-year tenure he played an important role in many of the Company's significant achievements. On behalf of our shareholders, customers, and employees we would like to thank Mr. Kirstein for his dedication and service.

Looking Ahead

The Fraser Valley Region continues to offer Surrey Metro Savings tremendous opportunities for growth. We intend to take advantage of these opportunities. The rapid growth of this area, and the very positive demographics of that growth, provide a strong market for our Company.

As noted earlier, technology has become an important part of our operation, and we see it taking on an increasingly significant role in the years ahead. It's hard to believe that automated banking machines (ABMs) have only been in common use for about 15 years. They have become such an integral part of banking in a relatively short period of time, and they mark the beginning of a wave of technology that continues to transform the financial services industry. Today, Surrey Metro Savings conducts more than two million transactions through ABMs annually. More than 35,000 transactions are handled through our automated Touch Tone Teller system every month, while more than 40,000 calls are now handled at our Call Centre each month. Debit cards have become a major banking tool, as customers now conduct more transactions by debit card than by cheque. We have become a society which wants to do our banking on our time, not the institutions'.

"The Fraser Valley Region continues to offer Surrey Metro Savings tremendous opportunities for growth. We intend to take advantage of these opportunities."

Surrey Metro Savings is committed to using technology to enhance our services and build our business. We have been a leader in the development of telephone banking; indeed we were the second institution in Canada to offer an automated telephone banking system. Over the next two years we expect to introduce a Smart Card and launch PC-based home banking. The marketplace has demonstrated that such products and services are becoming increasingly important and our Company intends to be in the position to meet demonstrated customer demand for such technology. At the same time, we will continue to monitor population growth and service needs and will develop new branches where and when we believe they will be economically viable.

50 Years of Service to the Community

1997 marks the 50th anniversary of the founding of Surrey Metro Savings. Our proud heritage and service is reviewed elsewhere in this Annual Report. However, we would be remiss if we did not make reference to our proud history in this report to shareholders.

Surrey Metro Savings, or Surrey Credit Union as it was known until 1991, has played a significant role in the development of the Fraser Valley Region. Long before the major banks displayed much interest in this area, our Company was providing vital financial services to the community. Thousands of families have financed their homes through Surrey Metro Savings. We have contributed to the growth of our business community, we have provided a secure environment for saving funds, we have constantly adapted to the changing needs of our customers, and we have provided support to hundreds of community organizations throughout the years. We are an integral part of our communities and we are proud to have had the opportunity to grow with the region.

As great as our past has been, we look forward with confidence to an even better future. Surrey Metro Savings is a company that continues to build upon its foundation in our trade area. We are grateful for the opportunity to serve these great communities. Our commitment to the people of the Fraser Valley is unwavering, and we expect to continue to prosper with our communities.

H.A. (Bert) Miles
Chairman of the Board

Lloyd M. Craig
President and Chief Executive Officer

community

RRSPs

Our goal is to provide our customers with the right products to ensure their security when they retire

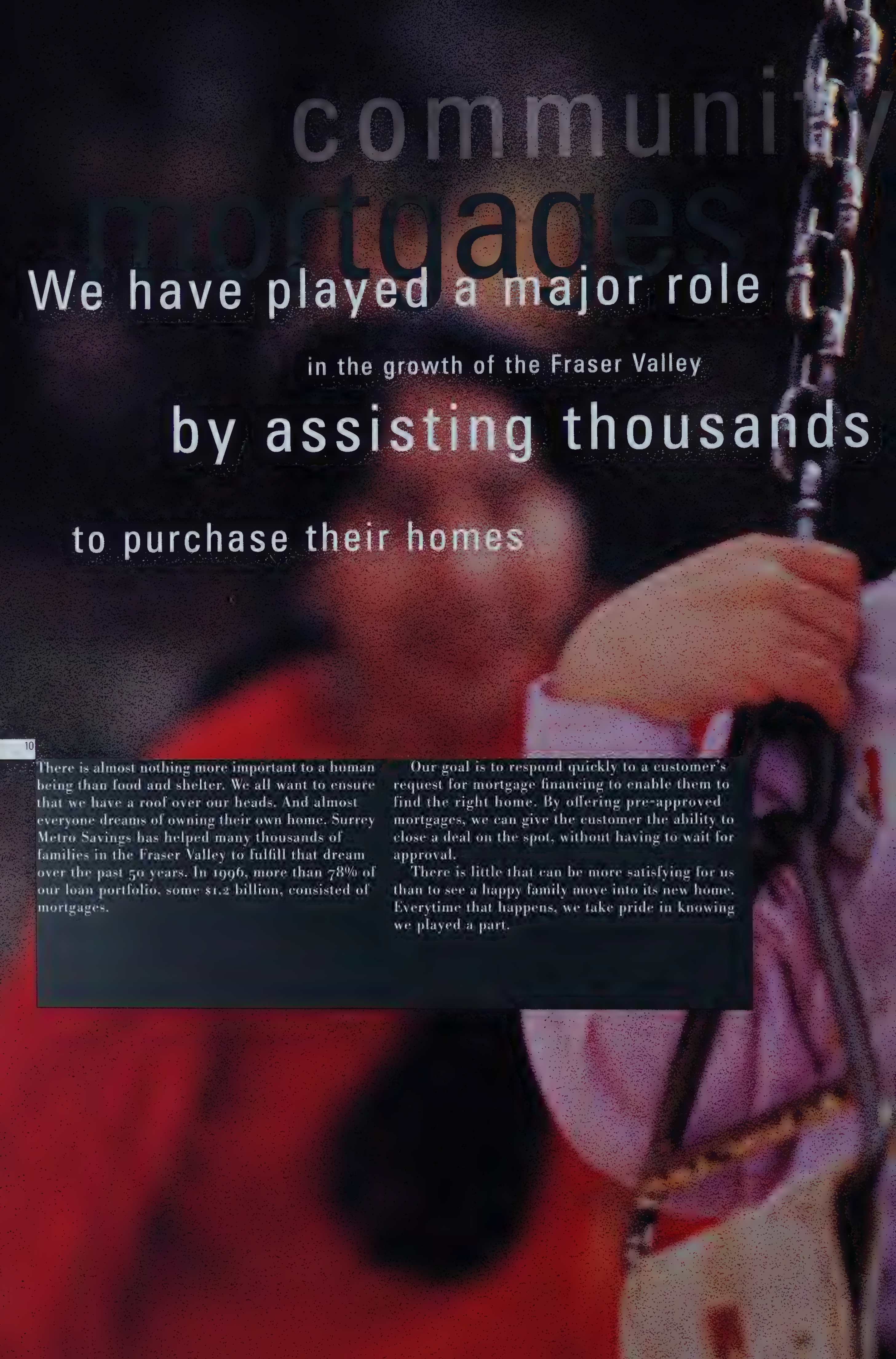
All the experts agree, the key to a secure retirement is planning and saving. At Surrey Metro Savings, approximately 35,000 people are building their retirement nest eggs in more than 100,000 RRSPs. Another 2,000 hold RRIFs. They recognize that they can no longer take government retirement programs for granted and that ultimately we are all responsible for saving for our future.

So many people turn to us because we offer flexible and innovative products which provide a wide range of options for retirement savings. Surrey Metro Savings has developed products such as MetroFund, which earns interest based on the TSE 100 index, the Lifetime RRSP, which encourages laddering, and RRSP loans, which enable people to maximize their RRSP contributions. The Company also offers the Ethical Group of mutual funds, many of the other major mutual funds, and self-directed RRSPs. Our Financial Planners at Metro Insurance Services provide guidance to many customers who are planning for their retirement.

A key element of our RRSP strategy is to encourage everyone in our community to begin investing at an early age to enable them to build a substantial retirement income over the years. After all, shouldn't our retirement years be the best years of our lives?

partners

Thousands of Fraser Valley residents, like Leo and Marianne Loewen of White Rock, have entrusted Surrey Metro Savings with their retirement savings.



community mortgages

We have played a major role in the growth of the Fraser Valley by assisting thousands to purchase their homes

There is almost nothing more important to a human being than food and shelter. We all want to ensure that we have a roof over our heads. And almost everyone dreams of owning their own home. Surrey Metro Savings has helped many thousands of families in the Fraser Valley to fulfill that dream over the past 50 years. In 1996, more than 78% of our loan portfolio, some $1.2 billion, consisted of mortgages.

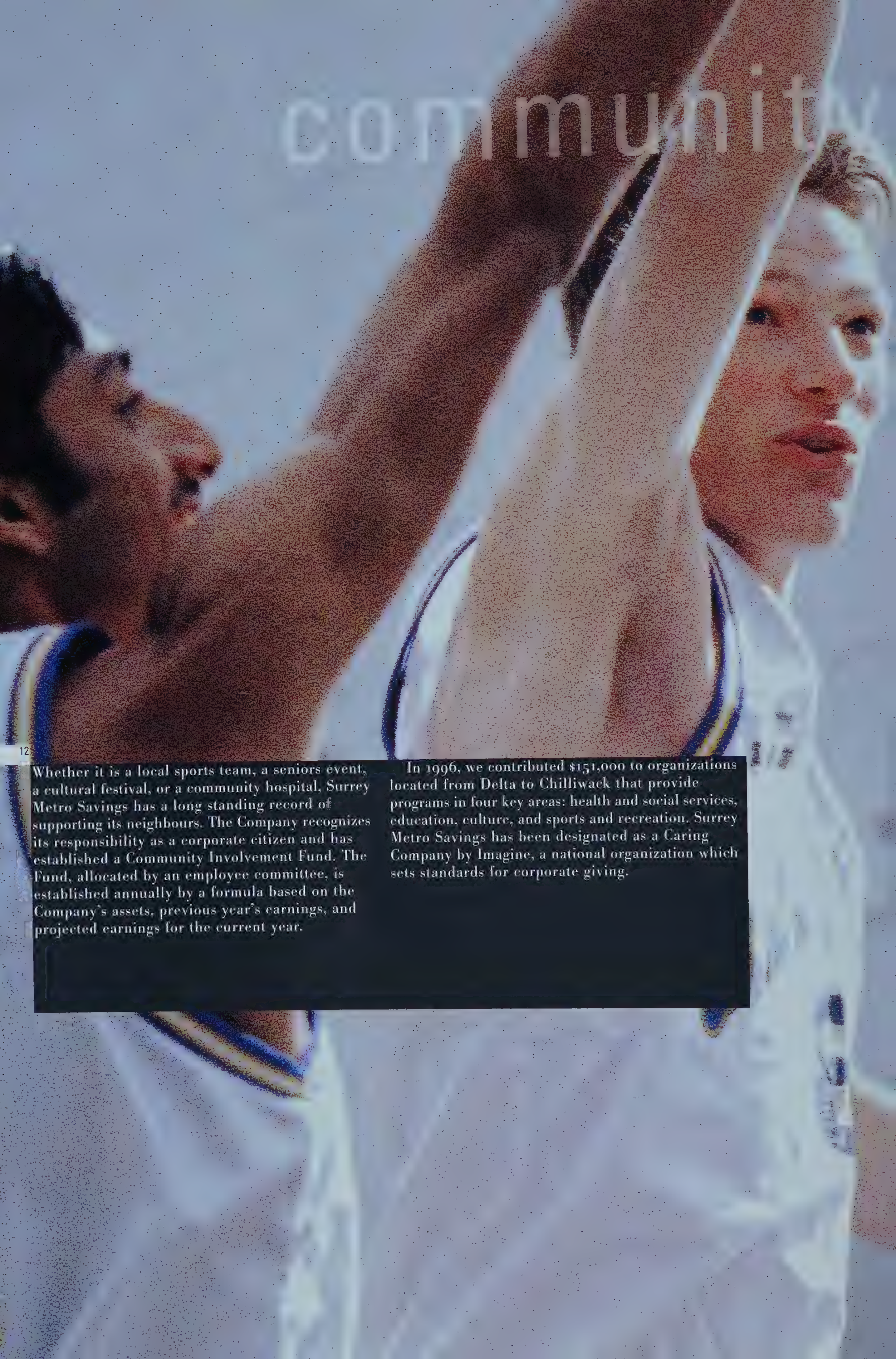
Our goal is to respond quickly to a customer's request for mortgage financing to enable them to find the right home. By offering pre-approved mortgages, we can give the customer the ability to close a deal on the spot, without having to wait for approval.

There is little that can be more satisfying for us than to see a happy family move into its new home. Everytime that happens, we take pride in knowing we played a part.

partners

Surrey Metro Savings approves more than 3,000 mortgages each year, helping customers like the Virdi family to realize the dream of owning their own home.

community



Whether it is a local sports team, a seniors event, a cultural festival, or a community hospital, Surrey Metro Savings has a long standing record of supporting its neighbours. The Company recognizes its responsibility as a corporate citizen and has established a Community Involvement Fund. The Fund, allocated by an employee committee, is established annually by a formula based on the Company's assets, previous year's earnings, and projected earnings for the current year.

In 1996, we contributed $151,000 to organizations located from Delta to Chilliwack that provide programs in four key areas: health and social services, education, culture, and sports and recreation. Surrey Metro Savings has been designated as a Caring Company by Imagine, a national organization which sets standards for corporate giving.

partners

involvement

We have a responsibility to work with and support those who are striving to make our communities better places to live

Surrey Metro Savings provided financial assistance in 1996 to more than 50 organizations and programs, such as the HCMP Basketball Classic, through its Community Involvement Fund.

community

Commercial lending represents an important part of Surrey Metro Savings partnership with its communities. Our Commercial Lending Unit, based in our Administration Office, plays a key role in helping new businesses get started and existing business to grow. The majority of our commercial loans are applied to commercial real estate projects, to support the development of new housing, local shopping centres, and small industrial projects.

Our support is extended to companies such as the Abbotsford Development Corporation, which is developing a residential community; and others who are developing condominium complexes and medical/dental offices. This provides them with the key financing to launch their projects and carry them through to completion.

partners

commercial

We are committed to helping those who have a dream to achieve their ambitions

Surrey Metro Savings lends funds for many commercial real estate projects, which provide homes for new residents and jobs for many in the community.

Performance Against Objectives

	Objectives	*Performance*
Deposit Growth	Increase deposits by $231 million.	$91 million.
Loan Growth	Increase total loan portfolio by $211 million.	$104 million.
Capital	Attain BIS capital level of 8.7% of risk-weighted assets.	10.4%.
Profitability	Achieve $8.8 million net income after tax.	$9.1 million.
Return on Average Assets	Achieve an after tax return of 0.48% on average assets.	0.51%.
Return on Average Equity	Achieve return on average equity of 13.59%.	14.42%.
Operating Expense	Total operating expenses (including subsidiaries) to be no greater than 2.36% of average assets.	2.45%.
Earnings Per Non-Voting Share	Achieve earnings per share of $1.55.	$1.61.

Surrey Metro Savings

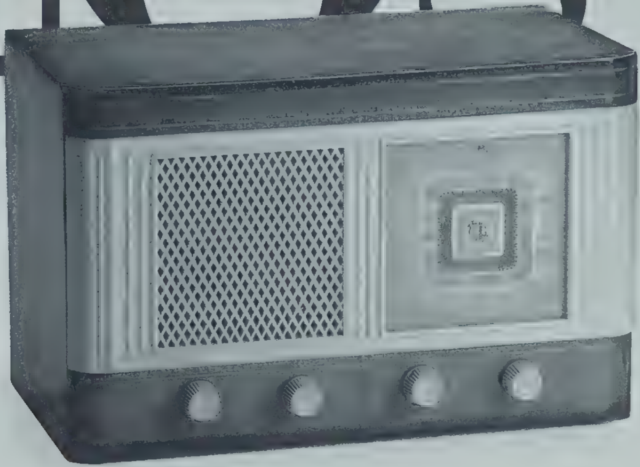
Historical Review

celebrating 50 years

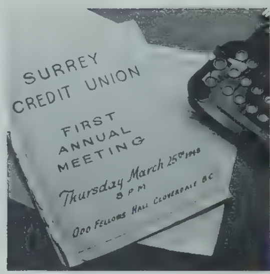
of partnership with the community

1947-1997

40s



The late 1940s was a time of optimism and excitement. The Second World War had ended and the men and women who had served overseas returned to their communities looking forward to starting their lives over. *Gentlemen's Agreement* won the Best Picture Oscar for 1947, and swing music was giving way to a new breed of be-bop jazz musicians. ¶ Surrey was a rural community, and the major Canadian banks were often less willing to provide financial services to the farm communities south of the Fraser River. The response was that on May 5, 1947, 41 members of the Surrey Co-operative came together to incorporate a new credit union. After considering several names, including Lower Valley Credit Union, they settled on Surrey Credit Union. The Common Bond for membership was membership in the Co-op. The initial share capital was $10, and individual loans were granted to a maximum of $300. Livestock, farm equipment, and farm supplies could be used for collateral. Frank Parker was the Provisional Chairman for the first month of the organization's existence until the membership elected Gavin Mouat to be the first President of Surrey Credit Union. ¶ The Credit Union was established on the simple concept of people helping people. It is doubtful that Mr. Mouat and those original 41 members ever imagined that their little credit union would grow to span from Delta to Chilliwack and would one day be the second largest credit union in Canada.



Our first Annual Report


Cloverdale


Langley Fire Department Drill

Surrey Credit Union incorporated on May 5, 1947.

1947

Velma Cosens hired as Secretary-Treasurer.

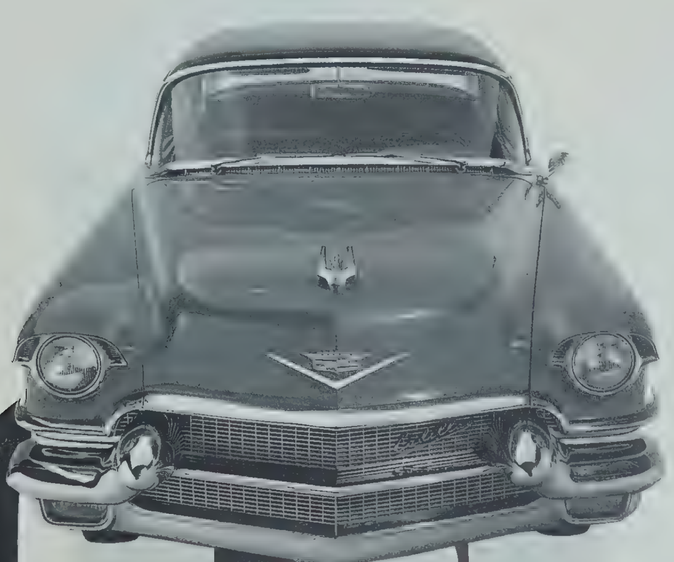
1948

As the 1950s began, the post-war baby boom was well underway. As the decade progressed, the Cold War began, the motion picture and radio industries began to feel the effects of a new technology, television. Elvis Presley popularized rock and roll and the automobile was becoming a staple in every family's life. In Surrey, the RCMP took over responsibility for policing from the local police force, and at the end of the decade the Surrey Memorial Hospital was constructed. ¶ The Co-op was thriving, the farming community was strong, and the first wave of migration from the city was becoming evident. Charles Partington ushered in the new decade as the President of Surrey Credit Union. The fledgling organization joined the B.C. Credit Union League and B.C. Central Credit Union, becoming part of a province-wide network of credit unions. By the mid-50s, membership had reached 1,200, with approximately 20 new members joining each month. In 1956 the Credit Union had "undivided earnings" of $18,880. ¶ The Board of Directors continued to manage many of the most basic elements of the Credit Union's operations. For example, it dealt with such weighty issues as approving the purchase of a $2.00 advertisement in the United Church Young Adults Magazine. However, most of the Board's activities consisted of dealing with delinquent loans and establishing connections and working relationships with other credit unions.

Cheerleading Squad Practice

Cloverdale Sign

Mr. and Mrs. C. Kochne visit Cloverdale Office



50s

931 members; $221,000 assets; $177,000 in loans.

1952

Chequing accounts introduced.

1957

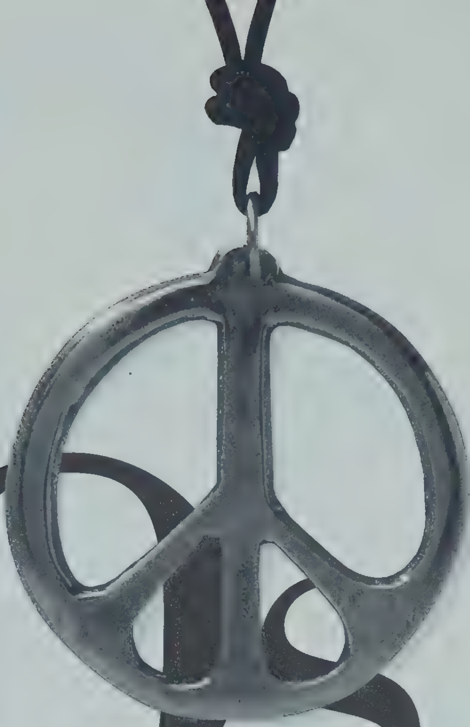
1,741 members; $560,000 assets; 492 loans outstanding totalling $413,000.

1958

Third full-time employee hired.

1959

60s



Dennis Fish and Chips 1966

Road Construction in Surrey 1965

White Rock Branch

From the Beatniks to the Beatles, the 1960s was a time of turmoil, change, and progress. Television brought us nightly newscasts of the war in Vietnam, protests, and inner-cities in flames. Everyone was watching Ed Sullivan and Bonanza, and the world cheered as two men set foot on the moon. Canadians got a new flag and a trendy new Prime Minister named Pierre Trudeau. ¶ In 1960 the Port Mann bridge opened, completing a major link in the Trans Canada Highway and creating easy access to the Fraser Valley from Vancouver and its suburbs. A ranch-style three bedroom home could be purchased in Langley for $9,000 in 1964. ¶ Surrey Credit Union took a giant step when it opened a branch in White Rock, precipitating a change in structure as the institution became a Community credit union. With almost 3,000 members and more than $1 million in loans, the Secretary-Treasurer was appointed loans officer. Previously, all loans had been approved by a volunteer credit committee which met weekly. ¶ At a special meeting in 1965, the Board dealt with three items; approving a $327.52 expense for repairs to the drainage system, the purchase of the Newton Credit Union, and the purchase of the Star of the Sea Credit Union in White Rock. In 1967, Velma Cosens, the Credit Union's first employee and its current Secretary-Treasurer, retired. The Credit Union moved out of its single office in the Co-op building and into its own premises in Cloverdale in 1968.

2,700 members.
$1.4 million in assets.
1962

White Rock Branch opened and bond changed to "Community."
1963

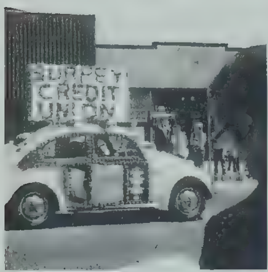
Seven full-time staff.
Term deposits introduced.
1966

Newton Branch opened.
C.B. Welch appointed Secretary-Treasurer.
1967

The 1970s was the decade of disco. Robert DeNiro and Al Pacino burst onto the scene as the hottest actors in Hollywood, and The Godfather, Jaws, and the Star Wars trilogy set box-office records. Watergate destroyed Richard Nixon and W.A.C. Bennett's 20-year reign over B.C. ended in 1972. Paul Henderson became a national hero with his overtime goal that won the first Canada-Russia hockey series. ¶ Surrey celebrated its centennial in 1979 and the municipality began to grow into a major suburban bedroom community and White Rock was becoming a popular spot for retirees. ¶ Surrey Credit Union experienced rapid growth throughout the decade. After 25 years of existence, the Credit Union boasted membership of 10,000 and $16 million in assets. Over the next seven years it grew to more than 50,000 members and almost $300 million in assets. Computers were introduced, and by the end of the decade the Company had eight branches serving Surrey, White Rock, and the Langleys. The top salary for a Branch Manager in 1974 was $18,000 per year.


W.A.C. Bennett visits Surrey 1971


Langely Branch sod-turning 1973



Langley Days Parade Float

70s

25th Anniversary! 10,000 members, 30 staff, $16 million in assets.

1972

In only three years membership more than doubled to 25,000. $80 million in assets.

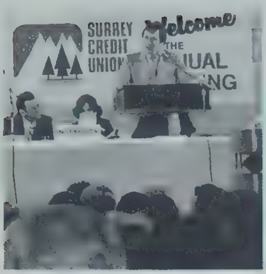
1975

Wayne Carpenter appointed General Manager

1977

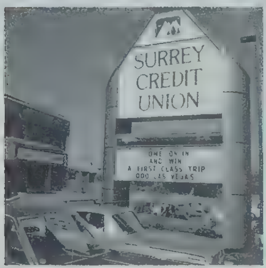
In-house on-line computer system introduced.

1979



CEO Wayne Carpeneter addresses 1983 Annual Meeting

Abbotsford farm



Delta Branch opened in 1984

Apple and IBM made the personal computer the hottest item of the 1980s. Wall Street changed the face of business forever with record numbers of mergers and corporate buy-outs funded by junk bonds. Canadians elected Brian Mulroney and Vancouver welcomed the world to Expo 86. Michael Jackson became the King of Pop and Bill Cosby was television's biggest star. ¶ In Surrey, voters decided to establish a municipal library system. Burns Bog was the topic of conversation in Delta, and the sandcastle competition was becoming too successful in White Rock. The region became the fastest growing area in Canada as young families and a new wave of immigration from the Pacific Rim began to move into the area. ¶ The 1980s were dynamic years for Surrey Credit Union, with much progress and just a little controversy. The opening of the Delta Branch in 1984 marked the Credit Union's first expansion into a new municipality in 10 years. Automated Banking Machines were introduced in 1983 and the Administration Office moved from Cloverdale to Guildford in 1984. During the first half of the decade the Company seemed to always be in the news, first with an ill-fated attempt to change the name to Westguard Savings, and then with the staggering loss of $7.5 million when the Northland Bank collapsed. The Board elected Bill Vogel as Chairman in 1986 and he oversaw some of the most significant changes in the Company's history throughout the remainder of the decade and into the 90s. The second half of the 80s were highlighted by more branching, the hiring of a new CEO, and entrance into the insurance business.

80s

First automated banking machines introduced.

1983

69,000 members. $477 million assets.

1985

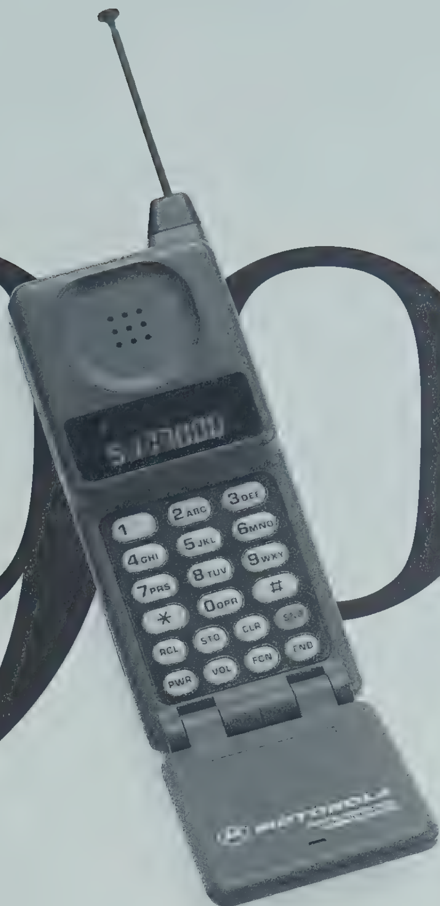
Lloyd Craig appointed CEO.

1986

Alpha Agencies Ltd. purchased, bringing the Company into the insurance business.

1988

90s



The Cellular phone became the icon of the decade, trash television reached its apex with the OJ trial, and the Americans beat us at our own game! The Liberals stormed into power, and women reached new heights in Canadian politics when Kim Campbell became Prime Minister and Newton MLA Rita Johnson became B.C.'s Premier. ¶ Surrey became a city in 1993, the seventh-largest in Canada, and Abbotsford and Matsqui amalgamated. The banks discovered the area in the late 80s and began a significant expansion into the region, following the tremendous population growth. ¶ For Surrey Credit Union, the 1990s has been one of the most dynamic decades in its history. To reposition itself in the highly competitive marketplace, the Company changed its name to Surrey Metro Savings. In 1992, the Company made history by listing on The Toronto Stock Exchange, becoming the only credit union in the world to list on a securities exchange. As the Fraser Valley grew, so did Surrey Metro Savings, opening branches in Abbotsford and Chilliwack. An attempted merger with another credit union failed, but the effort initiated positive debate within the credit union system which may lead to a consolidation of resources. Technology moved to the forefront of banking services as the institution became a leader in introducing automated telephone banking and bill payments and a Call Centre. As the decade draws to a close, the Company intends to explore new banking opportunities through personal computers and the internet.

Tom Kirstein celebrates the name change 1991

Surrey Memorial Hospital Run for Health

Surrey Metro Savings reaches Chilliwack, opening the Cottonwood Branch in 1995

Surrey Credit Union changed name to Surrey Metro Savings.
1991

Company listed Non-Voting Shares on the Toronto Stock Exchange, becoming the first credit union in the world to list on a securities exchange.
1992

Cottonwood Branch opened. Call Centre established, fifth Metro Insurance Services office opens.
1995

50th Anniversary! 116,000 customers, 640 employees, $1.8 billion in assets.
1997

A History Built by People

Surrey Metro Savings has prospered during the past 50 years in large part due to the tireless efforts of people who donated their time and skills serving on the Board of Directors and elected committees. Listed below are those individuals who have served in an elected capacity over the years.

Douglas Allen
M. Allen
Lorne Armstrong *
Bernard Arnold
Geraldine Baldwin *
W.C. Baldwin
Nelson Bastien *
K.J. Bigmore
Eric Bonnett *
R. Brooker
Bruce Chapman
Mary Chorm
Larry Colby
Keith Colquhoun
George Coupland
Lloyd Craig
Barry Creelman
Mel Culbert
Lyle Currie
E. Dadson
Doug Follett
Harold Funk
Wilf Goldstone *
E.E. Greenwood
Gurmant Grewal
E.B. Hansen
Frank Harper
L.R. Hicks
Harold Hine
Ted Horodyski
Paul Hough
W.N. Huff
George Hulbert
Kelly Hyslop
Peter Jmaeff
Vic Johnson
Ken Johnson
Ken Jones
Arthur Justason
Tom Kirstein *
John Klassen
C. Kochne
Percy Lewthwaite
Adrienne MacLaughlin
Geoff Main
Herb Malman
Tom Mathieson
David McBeth
Allan McDowall
John McIntyre
Ken McLeod *
David Meiklejohn
Bert Miles *
George Moffatt
A.J. Moore
Gavin Mouat *
Dale Mumford
Ethel Nivison
E. O'Dell
Tom O'Riordan
Frank Parker *
Charles Partington *
George Pedersson *
Greg Peet
Donna Pippus
Charles Powell
George Preston
George Rankin
M.A. Renner
James Rhodes
Allen Richards *
A. Rife
D.M. Roberts
Jean Ryan
John Ryder
Terry Schmaltz
Jas Scott
Ted Senay *
J. Sharp
Harry Smith
H.A. Snyder
Reg Staley
L.M. Staley
Les Staley
Elmer Stepp
Douglas Stone
Paul Taylor
Herb Thomasson
Stan Thorsteinson
Stan van Meer
William Vogel *
Hugh Watson
Charles Welch
F. Wellington
Joe Weremchuk, Jr. *
Tom White
Alan Wilson
Dan Yorga
Fred Zaitsoff

* Served as Board Chairman

Every effort has been made to include every elected official; however, if through error we have missed any name we offer our sincere apologies.

1947-1997

Chief Executives

Velma Cosens
1948 – 1967

Charles B. Welch
1967 – 1977

Wayne D. Carpenter
1977 – 1986

Lloyd M. Craig
1986 – present

Photos courtesy of:
Surrey Archives
Langley Advance

Thanks to:
Peace Arch News
Duane Geddes

Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations

This section of the Annual Report provides a detailed discussion of Surrey Metro Savings' (SMS) operations and financial condition. It also provides a discussion of how the Company manages credit, liquidity, and interest rate risks, as well as information on its capital structure.

Introduction

SMS successfully competes with banks, trust companies, credit unions, and other financial institutions in its market area by providing a high level of service and product quality. Its business focus is on attracting retail savings deposits from customers in the Fraser Valley region of British Columbia and using this deposit base to fund a loan portfolio comprised primarily of residential first-mortgage loans.

The Fraser Valley region is one of the fastest growing areas in Canada and SMS is a well-established financial institution with a 50-year history of serving this region. The rapid population growth in the Fraser Valley and SMS's ability to compete successfully with other financial institutions have enabled SMS to achieve asset growth and earnings without deviating from its conservative strategy of funding residential first mortgage loans primarily with retail deposits. Retail deposits are a more stable and less expensive source of funds than wholesale deposits obtained in the corporate and institutional markets.

Its concentration in residential mortgages and the quality of its mortgage portfolio, together with the low effective tax rate of approximately 24.0% applicable to credit union earnings in Canada, have enabled SMS to achieve a strong level of profitability.

Overview of 1996

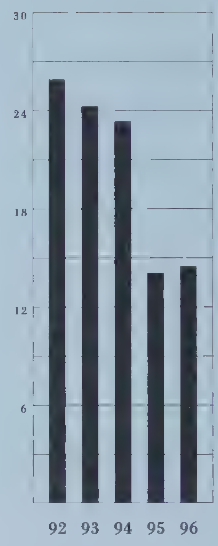
Surrey Metro Savings monitors the accounting policies and practices of other major institutions operating in the financial services sector to ensure that SMS's policies remain current with industry norms. As the amortization of prepayment fees has become generally accepted within the sector, management determined that it is more appropriate and in accordance with the prevailing standard for SMS to amortize these fees over the term of the loans to which such fees apply. This change had the effect of reducing 1996 net income by $0.5 million, and increasing 1995 net earnings by $1.4 million. The net effect to shareholders' equity, after tax, was a reduction of $2.2 million as at December 31, 1996. This amount will be reflected in deferred income and will be recognized as earnings in future years. (See Note 2 on page 41 in the Notes to the Consolidated Financial Statements.)

As a result of this change of accounting policies for 1996, financial information reported for the years 1991 to 1995 has been restated to reflect this change.

Net income for 1996 was $9.1 million, up 14.9% from the $7.9 million achieved in 1995. Earnings per share for 1996 were $1.61, compared with $1.40 in 1995. Return on average assets was 0.51%, compared to 0.50% in 1995. Return on average equity was 14.42%, compared with 14.02% for 1995.

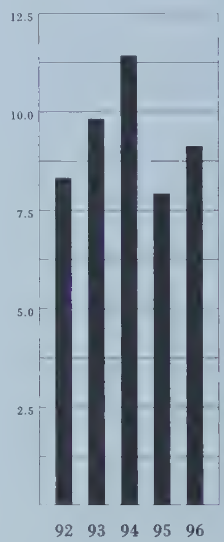
The number of Preferred Shares (with a $1 par value, and required by statute for membership) was 7,591,619 as at December 31, 1996. Surrey Metro Savings increased its Preferred Shares outstanding by aproximately five million due to a special promotional offer made to customers during 1996. The number of Non-Voting Shares outstanding as at December 31, 1996 was 5,663,672.

Assets grew in 1996 by 5.5%, compared with 18.3% for 1995. The lower rate of asset growth reflected the overall economic slow-down in BC, a decline in consumer confidence, and a $30 million reduction in the Company's securities portfolio. A part of these proceeds were applied against borrowings. Total assets at the year end were $1.8 billion, up from $1.7 billion in 1995.



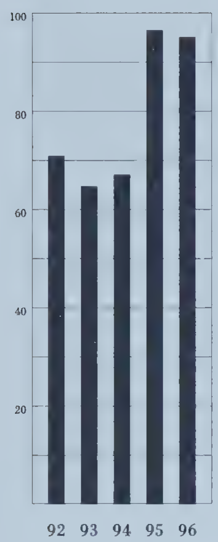
Return on Average Equity
in percent

ROAE has declined over the years from artificially high levels which were due to the low equity base which SMS had in the early 1990s. 1996's slight increase is a result of improved earnings.



Net Income
in millions of dollars

Declining interest rates, a relativiely strong real estate market, and higher fee income contributed to improved earnings.



INTEREST EXPENSE
in millions of dollars

Declining interest rates throughout 1995 reduced the costs of deposits, resulting in lower interest expense.

Total loans were $1.5 billion, up 7.2% from $1.4 billion in 1995. Total deposits were $1.6 billion, an increase of 6.0% from $1.5 billion in 1995. Net interest income was $43.5 million, up from $38.0 million in 1995. Other income was $13.2 million versus $12.0 million for the previous year. Non-interest expenses increased to $43.6 million from $39.1 million for 1995.

NET INTEREST INCOME

Interest income is the major source of revenue for SMS. In 1996, the Company earned income of $138.6 million from interest paid by borrowers on their loans and on interest from cash resources, securities, and investments. This represents an increase of $4.1 million over 1995. Interest expense, representing amounts paid by SMS as interest on customer deposits and corporate borrowings, totalled $95.1 million, a decrease of $1.4 million over 1995.

Net interest income represents the difference between interest income and interest expense. Net interest income for 1996 was $43.5 million, compared with $38.0 million for 1995. Net interest income was positively affected by low interest rates during the year as many deposits were repricing earlier than matching loans. During the fourth quarter, the Company also applied a $1.3 million gain achieved through the sale of $12 million in bonds to net interest income. This gain covered the provision for profit-sharing bonuses, the settlement of a longstanding lawsuit, and part of an increase in the provision for credit losses. Prepayment penalty income was $2.0 million in 1996, compared with $2.8 million in 1995. As noted earlier, the Company revised its accounting policies in 1996 and prepayment penalty income is now amortized. Therefore, the 1995 figure has been restated and differs substantially from the $0.86 million reported in the 1995 Annual Report. As a percentage of average assets, prepayment penalties represented 0.11% in 1996, compared with 0.16% in 1995. Net interest income, as a percentage of average assets, was 2.45% for 1996, compared with 2.41% for 1995.

PREPAYMENT PENALTY INCOME

On pre-tax basis / In thousands of dollars

Years Ended	Restated	(Previous Accounting Policy)	(Difference)
1990 opening balance	–	656	(656)
1991	570	1,465	(895)
1992	1,504	4,568	(3,064)
1993	2,686	3,535	(849)
1994	3,508	2,192	1,316
1995	2,780	859	1,921
1996	1,992	2,687	(695)
	13,040	15,962	(2,922)

Analysis of Net Interest Income

in thousands of dollars	1996 Average Balance	1996 Mix	1996 Interest	1996 Interest Rate	1995 (restated) Average Balance	1995 (restated) Mix	1995 (restated) Interest	1995 (restated) Interest Rate
Cash Resources and Securities	230,596	13%	15,593	6.76%	214,347	14%	16,590	7.74%
Loans:								
Residential	1,183,176	66%	95,273	8.05%	1,035,305	65%	89,824	8.68%
Commercial	173,574	10%	14,407	8.30%	143,119	9%	13,227	9.24%
Personal	65,770	4%	6,042	9.19%	61,057	4%	6,880	11.27%
Lines of Credit	87,535	5%	7,247	8.28%	75,338	5%	7,986	10.60%
Total Loans	1,510,055	85%	122,969	8.14%	1,314,819	83%	117,917	8.97%
Other Assets	36,134	2%	0	0%	44,146	3%	0	0%
Total Assets	1,776,785	100%	138,562	7.80%	1,573,312	100%	134,507	8.55%
Deposits:								
Demand	300,754	17%	4,115	1.37%	285,615	18%	7,533	2.64%
Term	754,815	42%	49,227	6.52%	695,499	44%	50,893	7.32%
RRSP	492,863	28%	31,727	6.44%	422,300	27%	30,425	7.20%
Total Deposits	1,548,432	87%	85,069	5.49%	1,403,414	89%	88,851	6.33%
Borrowings	136,076	8%	9,453	6.95%	82,133	5%	7,329	8.92%
Subordinated Notes	2,419	0%	220	8.98%	1,194	0%	166	13.91%
Other Liabilities	20,909	1%	0	0%	27,068	2%	0	0%
Shareholders' Equity	68,949	4%	357	0.52%	59,503	4%	184	0.31%
Total Liabilities	1,776,785	100%	95,099	5.35%	1,573,312	100%	96,530	6.14%
Total Assets/Net Interest Income	1,776,785		43,463	2.45%	1,573,312		37,977	2.41%

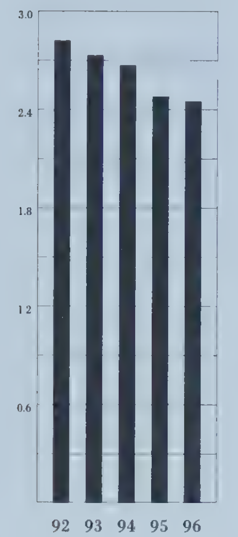
Other Income

Other income is all income that SMS earns that is not interest related. This includes such items as service charges for retail banking services, lending fees, insurance commissions generated by SMS's insurance company, rental income from SMS-owned properties, creditor insurance commissions, foreign exchange income, Visa fees, and mutual fund commissions. SMS practices a "user pay" policy as much as possible, especially in relation to its deposit accounts and financial services, and reviews its lending fees and service charges each year to ensure adequate returns while maintaining market competitiveness. SMS adjusted some of its service charges during 1996. Other income grew by 10.5% during 1996 to $13.2 million, compared to $12.0 million in 1995.

Non-Interest Expenses

Non-interest expenses represent all costs that are not interest related, except provisions for credit losses, and income taxes. It includes staff salaries and benefits, occupancy, data processing, marketing, deposit insurance assessments, Credit Union Central of BC (Credit Union Central) dues, and provincial capital taxes, among other items. Total non-interest expenses for 1996 were $43.6 million, a $4.5 million or 11.6% increase over 1995. Non-interest expenses represented 2.45% of average assets, (2.27% from banking activities, 0.04% from provisions for bonuses, and 0.14% from insurance operations), compared with 2.48% of average assets in 1995, (2.37% from banking activities, and 0.11% from insurance operations).

The increase reflects the staffing and occupancy costs associated with a full year of operation of new retail branches, insurance branches, and the centralized call



Operating Expenses to Asset Ratio
expressed as a percentage

Operating expenses continues to decline as a percentage of assets.

centre, as well as normal increases in such items as salaries and benefits, service contracts for data processing, and occupancy costs. Staffing costs grew by $2.4 million or 12.0%, which approximately doubles the percentage growth of assets. The increase included sales incentives and annual bonuses established under the terms of a bonus profit-sharing program tied to ROE which was developed in 1992. The program is reviewed by the Board on a regular basis and can be revised to reflect prevailing economic conditions. No bonus was paid in 1995.

Occupancy costs increased by $0.8 million or 16.3% over 1995. Again, this increase reflected the occupancy costs of new branches and the call centre. General expenses increased by $1.3 million, a 9.4% increase over 1995. This increase reflected on-going upgrading of data processing.

Capital Expenditures

SMS undertook substantial renovations of its Ocean Park branch in 1996 and invested in significant upgrades to computer systems equipment and software, specifically telecommunications equipment designed to enhance electronic banking capabilities.

Years Ended December 31[1] / in thousands of dollars	1996	(RESTATED) 1995
Land	–	715
Building renovations and improvements	423	341
Leasehold improvements	106	2,127
Computer equipment/software	2,910	1,822
Furniture and equipment	162	2,462
Total	3,601	7,467

[1] *Does not include asset disposals.*

Risk Management

Management of risk is an ongoing and continuous process, with the goal of achieving consistent optimal earnings over the long term. All of SMS's investment and loan policies, including risk management, are reviewed annually by the board of directors and any changes to previously approved policies are reviewed for prudence by the Superintendent of Financial Institutions of British Columbia. The board of directors also reviews monthly reports on liquidity, interest rate risk, credit loss provisions, delinquent and impaired loans, regulatory capital, and financial performance. There are three principal areas of risk which SMS monitors and manages: interest rate risk, credit risk, and liquidity/investment risk.

Matching Assets and Liabilities/Interest Rate Risk

Interest rate risk represents the effect movements in interest rates can have on SMS's financial position. Interest rate risk arises from a mismatch between deposit rates and maturities and the yields and maturities of loans, within a given period.

While the high proportion of residential first-mortgages provides a stable asset base, like any other financial institution, the profitability of SMS from one year to the next depends to a considerable extent on its ability to manage the maturities and yields of its assets against the maturities and costs of its liabilities.

SMS closely manages its interest rate risk through various strategies designed to optimize the return to SMS of differences between deposit and loan rates for different maturities. An asset and liability management committee (ALCo) comprised of the chief executive officer, senior vice presidents, vice presidents, and other relevant senior managers, meets monthly to review and monitor asset and liability-related activities and initiate policy changes where necessary. A subcommittee of the group meets weekly.

The differentials shown in the table on the next page for different maturities can change from one year to the next and are to some degree dependent on the interest rate expectations held by the mortgage, loan, and deposit customers of SMS. As previously noted, this information is monitored by management on a weekly basis so that any trends that are developing, or any differentials that are becoming large, can be identified at an early stage. Through computer modelling

techniques, SMS determines on a monthly basis its interest rate risk. The modelling determines the effect on pre-tax income of an immediate 1% rise in rates, as well as a gradual 3% rise, over the next 12 months. If the interest rate risk is approaching a level above policy guidelines, the largest differentials are reduced through either conventional means, such as deposit drives and the sale of mortgages, or so-called synthetic means employing derivative instruments such as interest rate swaps.

The following table shows the matching of maturities of the assets and liabilities of SMS at December 31, 1996, as well as those at December 31, 1995.

Years Ended		1996			(RESTATED) 1995	
in thousands of dollars	Assets	Liabilities	Differential	Assets	Liabilities	Differential
Interest sensitive:						
maturing within 1 year	766,509	1,116,714[1]	350,205	702,189	1,072,125[1]	369,936
Maturing between:						
1-2 years	189,052	183,121[2]	(5,931)	323,232	225,705[2]	(97,527)
2-3 years	222,636	142,708[2]	(79,928)	190,242	150,157[2]	(40,085)
3-4 years	372,447	103,485	(268,962)	155,862	91,459	(64,403)
4-5 years	197,068	138,996	(58,072)	274,474	67,060	(207,414)
6-10 years	15,099	10,000	(5,099)	20,298	–	(20,298)
Non-interest bearing items[3]	45,356	113,143	67,787	48,230	108,021	59,791
	1,808,167	1,808,167	–	1,714,527	1,714,527	–

[1]Includes the effect of $80,000,000 in interest rate swaps.
[2]Includes the effect of $40,000,000 in interest rate swaps.
[3]Assets include such items as cash, accrued interest receivable, deferred taxes, and capital assets. Liabilities include such items as accrued interest payable and retained earnings.

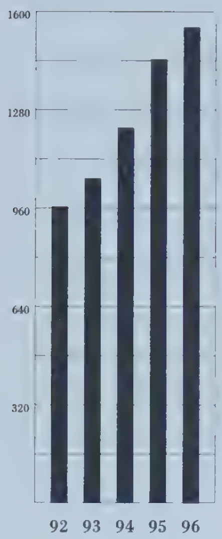
Rapidly rising interest rates can have a negative impact on SMS's net interest income because a large portion of SMS's liabilities will reprice before many of its assets can reprice. Most financial institutions tend to deem a prudent level of asset/liability mismatching to be necessary in order to improve profitability. The challenge is to find the level of mismatch that will optimize a financial institution's net interest income without increasing risk unduly if interest rates should rapidly increase.

SMS's level of interest rate risk within policy guidelines decreased steadily throughout the year. Factors leading to this included SMS's RRSP campaign, in which a large number of depositors were attracted to term deposits of one year or longer; the placement of $40 million in new 5-year interest rate swaps to mitigate the mismatch that was occurring in the 5-year period as borrowers were choosing to go into 5-year mortgages, while few depositors wanted to lock into 5-year deposits at what they perceived as historically low interest rates, and the repricing of over $150 million in SMS's CSB alternative deposit product in October.

Credit Risk

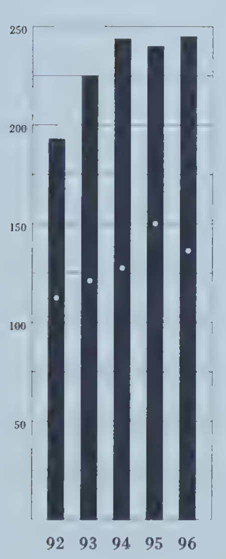
SMS's system for controlling the risk of its borrowers failing to meet loan obligations is based upon strict adherence to clearly defined credit policies and credit approval procedures. Authority for loan approval to specified limits is granted to officers within each branch by the president and chief executive officer within the guidelines reviewed annually by the board of directors. Loan approval limits are established based upon the experience and qualifications of the individuals involved. If a proposed loan is beyond the lending limit prescribed for branch management, it is forwarded, depending on the size of the loan to the manager, retail credit, or the vice president, credit. If a loan is beyond the internal lending limit prescribed for the vice president, credit, it is submitted to the loans committee, comprised of senior lending managers, and either approved at this level or further recommended for approval to the management credit committee, comprised of the chief executive officer and other executive officers.

All new lending in each branch is reviewed at least semiannually by the



Total Loans
in millions of dollars

A relatively strong real estate market contributed to loan growth of 7.2%.



Average Residential Sale Price Compared to Average SMS Mortgage Advance
in thousands of dollars

· *average SMS mortgage advance in the year*

SMS's average mortgage advances as indicated for each year are lower than average sale prices. Lower mortgage advance values may reduce the risk to SMS of individual credit losses.

Company's internal credit inspector to ensure adherence to policy guidelines and general credit quality. Loans requiring collection are removed from the branch level and centralized for further follow-up in the Retail Credit Department.

Liquidity/Investment Risk

As required by the Financial Institutions Act (FIA), 10% of SMS's total deposits and borrowings are held at Credit Union Central in a liquidity portfolio comprised of deposits with maturities ranging from overnight to one year. The Credit Union Central deposits provide yields similar to those of Government of Canada Treasury Bills. In addition to the liquidity portfolio held at Credit Union Central, SMS maintains excess liquidity. SMS's corporate goal is to maintain a total liquidity portfolio of 11% - 12.5% of total deposits and borrowings. It is the view of management that a total liquidity portfolio that is between 1% and 2.5% in excess of that required by the FIA provides a prudent margin of liquidity over the 10% statutory requirement without unduly impairing SMS's return on assets.

SMS's investment policy specifies the minimum rating, maximum term, and certain single investment exposures for investments made with excess liquidity. In general, excess liquidity is invested in money market instruments that are rated R-1 low or higher and mature in less than one year. At December 31, 1996, SMS's liquidity was 11.2% of deposits and borrowings, as compared to 10.6% in 1995.

Loans

Total loans as at December 31, 1996 were $1.5 billion, compared with $1.4 billion at the previous year-end, an increase of 7.2%.

SMS aggressively competes for, and is a major holder of, residential first mortgages in the Fraser Valley region. It grants mortgages to individuals according to conventional mortgage-lending standards for residential property. SMS offers closed, fixed-rate mortgages; open, variable-rate mortgages; and open, fixed-rate mortgages; written with terms of 6 months to 10 years.

At December 31, 1996, SMS's portfolio of residential mortgage loans totalled $1.2 billion, representing 78.8% of total loans outstanding, compared with total residential mortgage loans of $1.1 billion, which represented 78.7% of the total loans at December 31, 1995. Net growth of mortgage loans over 1995 was 7.2%. SMS approved a total of 3,040 residential mortgages in 1996, and the average mortgage advance was $137,000. There were a total of 11,066 residential mortgages outstanding at December 31, 1996, with an average mortgage balance of $110,000.

The strong real estate market which has existed in the Fraser Valley region for the past several years slowed somewhat in 1995 but showed moderate improvement during 1996. The area remains one of the fastest growing regions in Canada, according to Statistics Canada. The Fraser Valley also continues to offer lower housing prices compared with other areas of BC's Lower Mainland, such as Vancouver, Richmond, Burnaby, and the North Shore. Significant numbers of new residents continue to move into the Fraser Valley region. The Greater Vancouver Regional District expects the lower Fraser Valley region to record the highest rate of population growth in the Lower Mainland well into the next century. The availability of undeveloped land has kept average housing costs significantly lower than in other parts of the Lower Mainland, which results in average mortgages being substantially lower. Lower mortgages may reduce the risk to SMS of individual mortgage loan defaults.

Personal loans to customers comprise instalment loans, demand loans, and lines of credit. SMS also offers a Visa credit card through an arrangement with a major Canadian chartered bank. Under the arrangement, SMS does not carry the receivables owing from its credit cardholders but earns a fee based on the total net purchases generated by its credit card holders, as well as a per card fee.

At December 31, 1996, SMS had a personal loans portfolio of $147.9 million representing 9.5% of total loans outstanding, compared with $134.5 million representing 9.3% of total loans at December 31, 1995. Net growth of personal loans over 1995 was 10.0%.

Commercial lending by SMS consists primarily of first-mortgage loans to small and medium-sized businesses for real estate projects in the Lower Mainland region. The

types of mortgages offered are similar to residential mortgages, except the maximum term is limited to five years. Although SMS also conducts other forms of commercial lending, it constitutes a very small portion of SMS's commercial loan portfolio.

At December 31, 1996, SMS's commercial loans portfolio totalled $181.0 million, representing 11.7% of total loans outstanding, compared with $172.4 million, representing 11.9% at December 31, 1995. Net growth of commercial loans was 5.0%. SMS approved 232 commercial loans with a total value of $87.5 million during 1996. The average commercial mortgage advance was $377,000. While many loans were short term and repaid within the year, the growth in commercial loans was primarily due to growth in permanent mortgage loans, such as apartment buildings. There were a total of 784 commercial loans outstanding at December 31, 1996, with an average advance of $231,000.

SMS maintains conservative lending policies. The Company holds no foreign loans or loans that are outside the Lower Mainland of British Columbia. SMS's policy is that commercial lending cannot exceed 20% of the Company's total loans portfolio and it limits the extent of its loan exposure to any borrower, or group of connected borrowers, to the lesser of $6 million or 10% of SMS's aggregate share capital and retained earnings. SMS has no loans outstanding which exceed its internal limit. This limit is included in SMS's internal investment and lending policy which is reviewed annually by the Superintendent of Financial Institutions.

Loan Portfolio

as at December 31, 1996	Number	Total in millions of dollars	in percent	Average in thousands of dollars
Individuals				
Mortgages				
Conventional	8,468	867	56.0	102
Revenue	705	82	5.5	116
Progressive	156	23	1.5	147
NHA/MICC Insured	1,352	188	12.1	139
SMS High-Ratio	385	57	3.6	148
Subtotal Mortgages	11,066	1,217	78.7	110
Other				
PLC (Mortgage Secured)	926	41	2.7	44
PLC (Other)	16,442	48	3.1	3
Personal Loans	9,751	59	3.8	6
Subtotal Other	27,119	148	9.6	5
Subtotal Individuals	38,185	1,365	88.3	36
Commercial	784	181	11.7	231
	–	1,546	100.0	–
Accrued Interest	–	5	–	–
Total Loan Portfolio	38,969	1,551*	–	40

*Before allowance for credit losses.

Allowance for Credit Losses

SMS has an established policy of providing an allowance to cover potential credit losses. It is reviewed on an ongoing basis and if potential credit losses are identified, a specific allowance is established. The provision for credit losses was increased in 1996 to $1.2 million from $0.6 million. At December 31, 1996, the allowance for credit losses was $3.0 million, representing 0.19% of total loans, compared with $2.5 million or 0.17% of total loans, in 1995. These allowances are after loan write-offs of $0.68 million in 1996, compared to $0.42 million in 1995.

(See Note 5 on page 41 in the Notes to the Consolidated Financial Statements.)

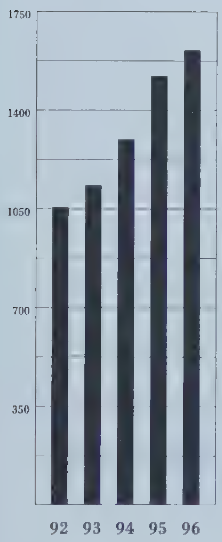
Asset Quality Coverage

As at Dec. 31, SMS's asset quality coverage was as follows:

in thousands of dollars	1996	1995	1994	1993	1992
Total Loans	**1,548,486**	1,444,649	1,221,162	1,056,657	964,559
Provision for Credit Losses (PCL)	**1,162**	600	600	600	600
Total Allowance	**3,003**	2,519	2,340	2,067	1,836
Impaired Loans	**5,003**	4,090	617	384	303
Loan Write-Offs	**678**	421	327	373	333
Shareholders' Equity (Restated)	**74,128**	62,066	56,400	47,437	39,409
in percent					
PCL as % of Total Loans	**0.08**	0.04	0.05	0.06	0.06
Impaired as % of Total Loans	**0.32**	0.28	0.05	0.04	0.03
Impaired as % of Shareholders' Equity	**6.75**	6.59	1.09	0.81	0.77
Total Allowance as % of Impaired Loans	**60.02**	61.60	379.30	538.30	605.90
Total Allowance as % of Total Loans	**0.19**	0.17	0.19	0.20	0.19
Loan Write-Offs as % of Total Loans	**0.04**	0.03	0.03	0.04	0.04

Securities

In 1994, SMS established a policy to allow it to invest in bonds as an alternative to mortgage investments. The portfolio consists of bonds with terms of maturity of 1 – 5 years, and have at least an "A grade" rating or better. The general intention is to hold them until maturity. While $18 million of SMS's bond portfolio matured in 1996, the Company opted to sell an additional $12 million in the fourth quarter, realizing a $1.3 million gain taking advantage of the prevailing low interest rates. This transaction provided SMS with additional liquidity. At December 31, 1996, SMS's bond portfolio stood at $27.2 million, with an average term to maturity of 17 months, and an average yield to maturity of 8.71%.



Total Deposits
in millions of dollars

Deposit growth was challenging in 1996 due to historically low interest rates

Deposits

Total deposits as at December 31, 1996 were $1.6 billion, compared with $1.5 billion for the previous year, an increase of 6.0%. Deposit growth was challenging throughout the year due to historically low interest rates.

SMS offers a full range of personal deposit services and products, including chequing accounts, savings accounts, and term deposits. All deposit accounts are in Canadian funds, with the exception of a special United States dollar savings account. SMS also provides special benefits packages on some of its accounts for individuals aged 55 and over or 18 and under. SMS is also active in the registered retirement savings plan (RRSP) market, offering term and variable RRSPs and registered retirement income funds (RRIFs).

At December 31, 1996, total demand deposits represented 18.8% of total deposits, compared with 18.3% in the previous year. Term deposits represented 48.8%, compared with 50.8% in 1995, and registered savings plans represented 32.4%, compared with 30.9% in 1995.

SMS is an aggressive competitor for deposits in its market. The low interest rate environment in 1996 reduced RRSP growth compared with previous years. The Company continues to develop innovative and competitive marketing strategies for this major deposit drive. In 1996 the registered savings plans portfolio increased by $52.0 million, compared with $98.0 million in 1995.

Term deposits are the most suitable for matching with mortgage lending requirements. The Company continued to be successful throughout 1996 in developing a term portfolio (including registered plans) which represented 81.2% of the total deposit base as at December 31, 1996, compared with 81.7% in 1995.

Interest rates dropped to the lowest level in 40 years in 1996, which resulted in lower than budgeted deposit growth. Deposit growth was very challenging in the face of strong competition from mutual funds, stocks and bonds, and other equities which became much more attractive options to many depositors as the year continued.

SMS continues to develop and offer innovative and flexible deposit products and attractive interest rates in order to remain competitive in the marketplace. SMS also

actively markets the family of ethical mutual funds, a group of eight mutual funds owned and managed by the Canadian credit union system. These funds provide SMS customers with another investment option and provide SMS with an alternative source of revenue. SMS also sells a variety of other mutual funds through its subsidiary, Metro Insurance Services Ltd, and receives the standard commissions for these sales.

Borrowings

In June 1994, SMS entered into an arrangement with several financial institutions for a $70 million syndicated loan, which the Company subsequently increased to $100 million in 1996. This loan facility is subject to standby fees and may be drawn down at any time. In addition to this facility, SMS maintains substantial loan facilities with Credit Union Central.

Advances under both facilities were decreased by $23 million during the past year. (See Note 9 on page 42 in Notes to the Consolidated Financial Statements.)

Capital

SMS's capital requirements are regulated by the Financial Institutions Commission (FICOM) using the risk-weighted approach which was developed by the Bank for International Settlements (BIS) in 1988. FICOM established a minimum capital standard based on a ratio of capital-to-risk-weighted assets of 8%. At least 50% of a credit union's capital base for the purpose of meeting the standard must consist of a core element, called Tier 1 capital, comprised of non-voting shares, preferred shares, contributed surplus, retained earnings, reserves, deferred income taxes, and a credit union's proportion of the retained earnings in the Credit Union Deposit Insurance Corporation (CUDIC), Credit Union Central, and Stabilization Central Credit Union (StabCentral). Secondary or Tier 2 capital, such as subordinated notes, qualifies for the required capital base up to an amount not exceeding the amount of Tier 1 capital. A credit union's assets are weighted according to six categories of relative risk ranging from 0% to 150%. Residential mortgages, which form the majority of the assets of SMS, are risk-weighted at 50%.

As at December 31, 1996, SMS had achieved a total capital ratio of 10.4%, up from 9.1% for 1995.

Capital increased significantly during 1996 due to the private placement of $10 million in subordinated notes and the increase of $5.1 million in preferred shares. This contributed to the improved capital ratio. The strong growth of the Company's capital positions SMS well for the future.

The following tables show the levels of Tier 1 capital and Tier 2 capital of SMS and its risk-weighted assets under the BIS requirements at December 31, 1996 and 1995, respectively.

Tier 1 and 2 Capital[1]

As at December 31 / in thousands of dollars	1996	(RESTATED) 1995
Tier 1 Capital		
Non-Voting shares	28	28
Preferred Share equity	7,591	2,438
Contributed surplus	248	180
Retained earnings[1]	67,612	60,558
Equity in subsidiaries	(1,351)	(1,138)
Portion of equity in Credit Union Central, CUDIC, and StabCentral[2]	7,799	14,286
Deferred taxes	(568)	(402)
	81,359	75,950
Tier 2 Capital		
Subordinated Notes	10,000	–
Total Capital	91,359	75,950

[1]Presented on an unconsolidated basis as required under the capital requirements regulation of the FIA for calculating risk-weighted assets.
[2]Reduced to 50% as required by regulation, effective January 1, 1996.

Risk-Weighted Assets

As at December 31	1996	(RESTATED) 1995		1996	(RESTATED) 1995
in thousands of dollars	Balance Sheet Amount	Balance Sheet Amount	BIS Risk Weight	Risk-Weighted Balance	Risk-Weighted Balance
Cash Resources	**186,579**	167,998	0%	–	–
Securities/ Commercial Paper	**35,333**	62,572	0-100%	**13,786**	33,387
Residential mortgages	**1,012,209**	969,947	50%	**506,104**	484,973
NHA and MICC mortgages	**188,004**	155,635	0%	–	–
High-ratio mortgages	**57,081**	44,270	100%	**57,081**	44,270
Personal loans	**110,170**	101,302	0-80%	**76,126**	70,713
Commercial loans	**181,023**	173,495	100%	**181,023**	173,495
Revenue property	**5,043**	4,889	150%	**7,564**	7,333
Other assets /investments	**32,725**	34,419	100%	**32,725**	34,419
	1,808,167	1,714,527	–	**874,409**	848,590

in percent	1996	(RESTATED) 1995
Ratio of Capital to Risk-Weighted Assets:		
Tier 1 capital to risk-weighted assets	**9.3**	9.0
Tier 2 capital to risk-weighted assets	**1.1**	0.0
Total capital to risk-weighted assets	**10.4**	9.0

Outlook

Loans and Deposits

If the Fraser Valley real estate market maintains its current level of activity, management anticipates loan growth of 10.7% for 1997. As a result, it is unlikely that SMS will increase its bond holdings, as this is primarily a vehicle for investing excess deposits when loan growth is slow.

Current interest rates will continue to make deposit growth difficult in 1997 as customers and investors look to higher yielding products such as mutual funds and equities. SMS intends to compete aggressively for deposits, and is anticipating deposit growth of 7.4%.

Liquidity

SMS is targeting liquidity to remain in the range of 11.0% to 12.5% of deposits plus borrowings. In management's opinion, this margin above the 10.0% statutory minimum, together with the ability to access its syndicated loan facility and to sell mortgages, will provide adequate liquidity for normal operations.

Income

Prevailing interest rates should have a positive impact on net interest income as deposits reprice more quickly than loans. Prepayment penalty income will likely remain at the 1996 levels if interest rates remain low, as some borrowers may choose to rewrite loans to take advantage of the lower rates.

Provisions for credit losses in 1997 are not expected to change significantly from 1996. Non-interest expenses are expected to increase 6.0%.

The anticipated interest rate environment, SMS's continued commitment to cost containment, and strong asset growth, should provide positive factors for an increase in net income in 1997.

Management's Responsibility

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with the requirements of the Credit Union Incorporation Act and appropriate generally accepted accounting principles in Canada, and include amounts based on informed judgements and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel; the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records, as well as a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition. The Board of Directors has appointed an Audit Committee, comprised of three Directors, to review with management and auditors the annual financial statements prior to submission to the Board of Directors for final approval.

Doane Raymond has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements and their report appears below. They have had full and free access to the internal audit staff and the Audit Committee of the Board.

Lloyd M. Craig
President and Chief Executive Officer

Hermann G. Bessert
Senior Vice President, Finance

Auditors' Report

To the Shareholders of Surrey Metro Savings Credit Union

We have audited the consolidated balance sheets of Surrey Metro Savings Credit Union as at December 31, 1996 and 1995 and the consolidated statements of income, retained earnings, and changes in financial position for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for prepayment penalties as explained in Note 2 to the consolidated financial statements, on a consistent basis.

Doane Raymond

Chartered Accountants
New Westminster, Canada

February 14, 1997

Consolidated Balance Sheets

December 31 / in thousands of dollars	*Note*	1996	(RESTATED) 1995
ASSETS			
Cash resources	3	**192,745**	173,392
Securities	4	**27,217**	57,178
Loans	5	**1,548,486**	1,444,649
Other assets	6	**17,254**	16,514
Capital assets	7	**22,465**	22,794
		1,808,167	1,714,527
LIABILITIES			
Deposits	8	**1,611,670**	1,520,756
Payables and accruals		**12,369**	8,705
Borrowings	9	**100,000**	123,000
		1,724,039	1,652,461
Subordinated notes	10	**10,000**	–
SHAREHOLDERS' EQUITY			
Share capital	11	**7,867**	2,646
Retained earnings	12	**66,261**	59,420
		74,128	62,066
		1,808,167	1,714,527
Commitments	17		

See accompanying notes to the consolidated financial statements.

On behalf of the Board

DIRECTOR

DIRECTOR

Consolidated Statements of Income

Years Ended December 31 *in thousands of dollars, except per share amounts*	*Note*	1996	(RESTATED) 1995
Interest income	13		
Loans		122,969	117,917
Cash resources		9,043	10,858
Securities		5,867	4,975
Other		683	757
		138,562	134,507
Interest expense			
Deposits		85,427	89,035
Borrowings		9,672	7,495
		95,099	96,530
Net interest income		43,463	37,977
Provision for credit losses		1,031	466
		42,432	37,511
Other income	14	13,235	11,975
		55,667	49,486
Non-interest expenses			
Salaries and employee benefits		22,536	20,129
Occupancy		5,644	4,854
General	15	15,404	14,076
		43,584	39,059
Net income before income taxes		12,083	10,427
Income taxes			
current	16	3,143	2,050
deferred		(165)	456
		2,978	2,506
Net income		9,105	7,921
Earnings per share		1.61	1.40

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

Years Ended December 31 / in thousands of dollars	*Note*	1996	(RESTATED) 1995
Beginning of year			
As previously reported		61,115	56,900
Adjustment for change in accounting policy	2	(1,695)	(3,140)
As restated		59,420	53,760
Net income		9,105	7,921
Non-voting share dividends		(2,264)	(2,261)
End of year		66,261	59,420

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years Ended December 31 / in thousands of dollars	1996	(RESTATED) 1995
CASH RESOURCES PROVIDED BY (USED IN)		
Operating activities		
Net income	9,105	7,921
Items not affecting cash resources:		
Amortization of capital assets	3,614	2,779
Amortization of goodwill	436	205
Deferred income taxes	(165)	377
Provision for credit losses	1,031	466
Changes in accrued interest receivable and payable	(4,894)	12,630
Changes in other non-cash operating items	3,822	(5,005)
	12,949	19,373
Financing activities		
Increase in deposits, net	96,150	211,483
Increase (decrease) in borrowings, net	(23,000)	39,000
Increase (decrease) in subordinated notes	10,000	(3,000)
Issue (redemption) of preferred shares, for cash, net	5,153	(125)
Issue of non-voting shares, for cash	68	131
Cash dividends on non-voting shares	(2,264)	(2,261)
	86,107	245,228
Investing activities		
Increase in loans, net	(105,211)	(222,839)
Purchase of capital assets, net	(3,285)	(7,102)
Decrease (increase) in securities	29,961	(12,305)
Decrease (increase) in investments and other	(1,168)	1,609
	(79,703)	(240,637)
INCREASE IN CASH RESOURCES	19,353	23,964
CASH RESOURCES, BEGINNING OF YEAR	173,392	149,428
CASH RESOURCES, END OF YEAR	192,745	173,392

See accompanying notes to the consolidated financial statements.

December 31, 1996 and 1995

GOVERNING LEGISLATION AND OPERATIONS

Surrey Metro Savings Credit Union (SMS) is incorporated under the Credit Union Incorporation Act of British Columbia; the operation of SMS is subject to the Financial Institutions Act of British Columbia.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of SMS and its wholly owned subsidiaries, Metro Insurance Services Ltd. and Shoreline Projects Ltd.

Securities

Securities consisting of Investment Account Securities are purchased with the intention of holding to maturity. These debt securities are stated at cost. Premiums and discounts on the purchase of debt securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities.

Loans

Loans are stated at the unpaid principal plus accrued interest less an allowance established to provide against probable losses on ultimate realization of the loan portfolio.

Allowance for credit losses

SMS maintains specific allowances for credit losses that reduce the book value of loans identified as impaired to their estimated realizable amounts. An impaired loan is classified as non-accrual at the earlier of:

- in the opinion of management, there is reasonable doubt as to the collectibility of principal or interest
- interest is 90 days past due unless there is adequate security
- interest is 180 days past due.

Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, or by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

SMS maintains a general allowance to absorb credit losses attributable to any deterioration of loan quality of the portfolio for which specific allowances cannot yet be determined. The general allowance is established based on payment arrears, known risks in the portfolio, historical credit loss experience and current economic conditions and trends.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Investments

Investments are recorded at the lower of estimated net realizable value and cost except for the investment in joint venture, which is recorded on the proportionate consolidation method.

Capital assets

Capital assets are recorded at cost less amortization which is provided using the straight line method over the estimated useful lives of the assets, as follows:

Buildings	40 to 50 years
Leasehold improvements	10 years
Computer equipment	3 years
Telephone equipment	4 years
Furniture and other equipment	5 to 10 years

Goodwill

Goodwill is recorded at cost less amortization which is provided using the straight line method over five years, except where a write-down is required to reflect permanent impairment.

Dividends

Dividends on preferred shares are charged to income for the year in respect of which they are calculated and are included in interest expense.

Dividends on non-voting shares are charged to retained earnings in the year that they are declared.

Revenue recognition

Interest income from loans is recorded by the accrual method, except for impaired loans classified as non-accrual. Interest income from loans classified as non-accrual is recorded on a cash basis into revenue when there exists no allowance for credit loss against the principal amount. In cases where an allowance for credit loss exists against the principal, and interest is paid on a cash basis, amounts so received would be used to reduce the principal.

Penalty income recorded on prepayment or renegotiation of fixed term loans is deferred and amortized to income over the average term of such loans (See Note 2 – Change in accounting policy).

Gains on the issue of mortgage-backed securities (insured through the National Housing Act) are recognized in the year of sale and are derived by capitalizing the net present value of the interest spread inherent in the pool.

Derivatives

SMS enters into interest rate swap agreements and other derivative financial instruments to manage its exposure to interest rate risk. Interest rate swaps involve the exchange of a floating rate interest payment for a fixed rate payment on a notional principal amount. Interest rate swaps are normally designated as hedges (reducing interest rate risk), and any gains or losses are recognized on the same basis as, and netted against, the interest income or expense related to the hedged item.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Changes in Canadian accounting standards

- Canadian Institute of Chartered Accountants Handbook Section 3025, "Impaired Loans," was adopted in fiscal 1996. This new section sets standards for the identification of impaired loans, the related measurement of the carrying value of such loans based primarily on the present value of cash flows, the establishment of the general provision, and the disclosure of related amounts. An adjustment to retained earnings on adoption of the new standard was not required because it had no significant impact.

- Canadian Institute of Chartered Accountants Handbook Section 3055, "Interests in Joint Ventures," was adopted in fiscal 1995. This section requires that investments in joint ventures be accounted for retroactively using the proportionate consolidation method. Under this approach, SMS's share of material assets, liabilities, revenues and expenses of joint ventures is reported on a line by line basis. An adjustment to retained earnings on adoption of the new standard was not required because it had no significant impact.

- Canadian Institute of Chartered Accountants Handbook Section 3860, "Financial Instruments – Disclosure and Presentation," was adopted in fiscal 1996. This section requires disclosure of information about the extent, nature and fair values of an entity's financial instruments, including terms that may affect the amount, timing and certainty of future cash flows.

New standards for presentation and disclosure of equity shares will be effective for fiscal 1997. This section will require that the existing preferred shares be classified as liabilities and related dividends as an expense. Currently, SMS classifies the preferred shares as equity and charges the dividends to expense.

2. Change in accounting policy

For the fiscal year 1996, SMS changed its accounting policy for recording penalty income on prepayment or renegotiation of fixed term loans. Previously, the penalty income was recognized when received. SMS now defers and amortizes the penalty over the average term of such loans.

This change in accounting policy has been applied retroactively as a prior period adjustment. The effect of the change is a cumulative reduction of retained earnings as at December 31, 1994 of $3,140,000 (being net of taxes of $853,000), an increase of 1995 net income of $1,445,000 (net of $476,000 taxes), and a decrease of 1996 net income of $524,000 (net of $172,000 taxes).

3. Cash resources

in thousands of dollars	1996	1995
Cash on hand, deposits with banks and Credit Union Central of British Columbia, cheques and other items in transit	7,670	10,423
Demand and term deposits with Credit Union Central of British Columbia, due within one year	174,266	152,938
Bankers acceptances, commercial paper and other money market notes, due within one year	8,117	5,394
Accrued interest	2,692	4,637
	192,745	173,392

4. Securities

			1996		1995	
in thousands of dollars	Maturity 1 to 3 years	Maturity 3 to 5 years	Cost	Estimated market value	Cost	Estimated market value
Canadian Government debt	7,761	–	7,761	8,199	12,397	13,086
Other Canadian debt securities	19,456	–	19,456	20,617	44,781	46,910
	27,217	–	27,217	28,816	57,178	59,996

Securities consisting of Investment Account Securities are purchased with the intention of holding to maturity.

5. Loans

in thousands of dollars	Residential Mortgages	Personal Loans	Commercial Mortgages and Loans	Total
1996				
Total loans	1,220,658	148,845	181,986	1,551,489
Allowance for credit losses	1,108	932	963	3,003
	1,219,550	147,913	181,023	1,548,486
Impaired loans	4,604	243	156	5,003
Less amounts where loss is not expected	4,297	44	89	4,430
Specific allowances	307	199	67	573
General allowances	801	733	896	2,430
	1,108	932	963	3,003

5. Loans (*continued*)

in thousands of dollars	Residential Mortgages	Personal Loans	Commercial Mortgages and Loans	Total
1995				
Total loans	1,138,556	135,264	173,348	1,447,168
Allowance for credit losses	791	758	970	2,519
	1,137,765	134,506	172,378	1,444,649
Impaired loans	1,083	60	2,947	4,090
Less amounts where loss is not expected	1,083	7	2,880	3,970
Specific allowances	–	53	67	120
General allowances	791	705	903	2,399
	791	758	970	2,519

	1996	1995
Allowance for credit losses		
Balance, beginning of year	2,519	2,340
Provision, before recoveries of $131 (1995 – $134)	1,162	600
	3,681	2,940
Write-offs	(678)	(421)
Balance, end of year	3,003	2,519
Percentage of total loans	0.19	0.17

6. Other assets

in thousands of dollars	1996	(RESTATED) 1995
Investments		
Shares, Credit Union Central of British Columbia	9,984	9,276
Other		
Accounts receivable	1,623	3,693
Deferred leasing costs	268	177
Goodwill	36	472
Prepaid expenses	4,052	2,231
Deferred income taxes	412	247
Other	879	418
	7,270	7,238
	17,254	16,514

7. Capital assets

in thousands of dollars			1996	1995
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	3,402	–	3,402	3,402
Buildings	11,739	3,843	7,896	7,826
Leasehold improvements	5,168	1,936	3,232	3,514
Computer equipment	9,278	5,539	3,739	3,455
Telephone equipment	1,277	268	1,009	–
Furniture and other equipment	10,185	6,998	3,187	4,597
	41,049	18,584	22,465	22,794

8. Deposits

in thousands of dollars	1996	1995
Demand	303,663	278,749
Term	785,605	772,415
Registered savings plans	522,402	469,592
	1,611,670	1,520,756

9. Borrowings

Maturity Date	Interest Rate (in percent)	1996 (in thousands of dollars)	1995
Credit Union Central of British Columbia			
OVERNIGHT BORROWINGS			
January 2, 1996	6.125	–	45,000
TERM BORROWINGS			
August 21, 1996	9.000	–	13,000
August 30, 1996	10.400	–	10,000
September 18, 1996	10.490	–	20,000
October 20, 1997	7.500	5,000	5,000
August 20, 1999	6.920	10,000	–
August 30, 2000	7.250	10,000	–
September 18, 2000	7.400	20,000	–
August 21, 2001	7.520	5,000	–
		50,000	48,000
		50,000	93,000

SYNDICATED BANK BORROWINGS Maturity Date	Interest Rate	1996	1995
February 19, 1996	6.11	–	30,000
January 3, 1997	5.87	20,000	–
August 21, 1997	4.75	30,000	–
		50,000	30,000
		100,000	123,000

Subsequent to the year-end, matured borrowings were renegotiated in the normal course of business.

Credit Union Central of British Columbia
The borrowings are secured by a demand debenture in the amount of $57,000,000 in favour of Credit Union Central of British Columbia which creates a floating charge on assets and undertakings of SMS, and an assignment of book debts. Interest is payable semiannually.

Syndicated bank borrowings
A borrowing syndicated by four financial institutions, for up to $100,000,000 (1995 – $70,000,000) is secured by a $200,000,000 floating charge and a security interest on assets and undertakings of SMS. The syndicated bank borrowing is subordinated in right of repayment to the Credit Union Central of British Columbia borrowing. Repayment of individual term loans provided under this borrowing is required by no later than June 2001. This maturity date may be extended by mutual agreement. Interest is payable every 30 days for term loans due within 6 months and not less than semiannually for term loans of longer duration.

10. Subordinated notes

Unsecured notes in the amount of $10,000,000 (1995 – $Nil) bearing interest at 8.98% per annum payable semiannually and maturing on October 4, 2006. These notes are redeemable after October 4, 2001 and are subordinated in right of repayment to Credit Union Central of British Columbia, borrowings and deposits.

11. Share capital

in thousands of dollars, except per share amounts

Authorized
Preferred shares
An unlimited number of non-transferable, cumulative, redeemable shares with a par value of $1 each, issued as a condition of membership to a maximum of 1,000 shares per member. Each share is entitled to a cumulative dividend at a floating rate equal to SMS's average daily prime rate of interest during the year and is redeemable at par value on withdrawal of membership.

Non-voting shares
An unlimited number of transferable non-voting shares with a par value of $0.005 each, fully participating in earnings after payment of dividends on preferred shares.

11. Share capital *(continued)*

in thousands of dollars, except per share amounts

Share transactions
Details of share transactions for the year are as follows:

	1996 Number of Shares	1996 Amount	1995 Number of Shares	1995 Amount
Issued and outstanding				
BEGINNING OF YEAR				
Preferred shares	2,438,594	2,439	2,563,464	2,564
Non-voting shares	5,655,672	207	5,639,672	76
	8,094,266	2,646	8,203,136	2,640
SHARES ISSUED (REDEEMED) FOR CASH				
Preferred shares	5,153,025	5,153	(124,870)	(125)
Non-voting shares	8,000	68	16,000	131
End of year	13,255,291	7,867	8,094,266	2,646
Represented by:				
Preferred shares	7,591,619	7,592	2,438,594	2,439
Non-voting shares	5,663,672	275	5,655,672	207
	13,255,291	7,867	8,094,266	2,646

Stock options
Certain key employees have been granted options to purchase non-voting shares at prices based on the market price of the shares as determined on the date of the grant. The total stock options outstanding at December 31, 1996 are as follows:

Year Granted	Price per Share	Expiry Date	Number of Shares
1992	6.00	October 28, 2002	11,000
1993	9.88	November 3, 2003	11,000
1994	11.00	November 1, 2004	17,000
1995	8.50	October 30, 2005	32,000
1996	9.13	January 22, 2006	8,000
1996	11.40	October 28, 2006	44,000
			123,000

12. Capital requirements

The Financial Institutions Act requires SMS to maintain a capital base which is adequate in relation to its level of business activities. The level of capital required is based on a prescribed percentage of the total value of its risk-weighted assets, each asset of SMS being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Financial Institutions Act regulations prescribe that the minimum required capital base is 8% of the risk-weighted value of assets. At December 31, 1996, SMS attained a capital base of 10.4% (1995 – 9.0%) of the total value of risk weighted assets.

Commencing January 1, 1997, these regulations prescribe that at least 35% of the capital base must consist of retained earnings. SMS is in compliance with the amended capital ratio requirements.

13. Interest income

Interest income from loans includes $1,992,000 (1995 – $2,780,000) of penalty income recorded for prepayment or renegotiation of fixed term loans.

Interest income from securities includes interest of $4,530,000 (1995 - $4,975,000) and net realized gains of $1,337,000 (1995 - $Nil).

14. Other income

in thousands of dollars	1996	(RESTATED) 1995
Account service fees	6,437	5,623
Commissions	3,925	3,504
Lending fees	1,904	1,892
Other	969	956
	13,235	11,975

15. General operating expenses

in thousands of dollars	1996	(RESTATED) 1995
Bonding and other insurance	382	275
Capital taxes	791	670
Chequing service charges	1,093	838
Collection and credit reports	144	125
Data processing	3,859	3,528
Deposit insurance assessment	780	662
Dues, Credit Union Central of British Columbia	459	438
Marketing	1,952	2,023
Professional and other services	1,540	1,387
Stationery, telephone and postage	2,525	2,052
Sundry	1,879	2,078
	15,404	14,076

16. Income taxes

in percentage	1996	1995
Combined federal and provincial statutory income tax rates	39.1	39.1
Tax credit permitted under section 137 of the Income Tax Act	(16.0)	(16.0)
Other, net	1.5	0.9
Actual tax rate as a percentage of pre-tax income	24.6	24.0

17. Commitments

Lease commitments

SMS occupies branch premises under long term leases extending to 2005. Aggregate basic annual lease payments for each of the next five years are:

in dollars	
1997	1,581,000
1998	1,584,000
1999	1,350,000
2000	1,209,000
2001	990,000

Off-balance sheet commitments

In the normal course of business, SMS enters into various off-balance sheet commitments such as letters of credits and derivative contracts. The letters of credit and the notional principal amounts for derivative contracts reported below are not reflected in the consolidated balance sheets. Details of these are as follows:

Letters of credit

At December 31, 1996, SMS has issued letters of credit on behalf of customers in the amount of $4,924,000 (1995 – $4,685,000). These letters of credit are fully secured by monies on deposit.

Derivative contracts

Interest rate swaps

At December 31, 1996, SMS has entered into interest rate swap contracts in the notional principal amount of $120,000,000 (1995 – $80,000,000) maturing at various times in part until 2001. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional principal amount for a pre-determined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure.

Forward rate agreements

During fiscal 1996, SMS settled a forward rate agreement in the notional principal amount of $120,000,000.

18. Fair values of financial instruments

Estimated fair values of SMS's financial instruments are set out below. No fair values have been determined for premises and equipment, goodwill or any other asset and liability that is not a financial instrument.

in thousands of dollars	1996			1995		
	Book value	Fair value	Fair value over (under) book value	Book value	Fair value	Fair value over (under) book value
Assets						
Cash Resources	192,745	193,407	662	173,392	174,150	758
Securities	27,217	28,816	1,599	57,178	59,996	2,818
Loans	1,548,486	1,590,782	42,296	1,444,649	1,455,857	11,208
Other	9,984	9,984	–	9,276	9,276	–
Liabilities						
Deposits	1,611,670	1,653,348	41,678	1,520,756	1,547,575	26,819
Borrowings	100,000	103,774	3,774	123,000	124,473	1,473
Subordinated notes	10,000	11,812	1,812	–	–	–
Derivatives						
Financial instruments	–	(6,979)	(6,979)	–	(3,803)	(3,803)

The difference between the book and fair values of SMS's loans, deposits and other financial instruments are due primarily to changes in interest rates. As SMS normally holds these instruments to maturity, the book values have not been adjusted to reflect the differences.

Not all financial instruments are readily marketable. As a result, the estimates of fair value are subjective and should not be considered precise. The estimated fair values of cash, variable rate loans, other assets and liabilities are assumed to equal their book values, as the items are short term in nature. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

19. Maturities

	Period to Maturity					
in thousands of dollars	Within 3 Months	4 Months to 1 Year	Over 1 to 5 Years	Not Interest Sensitive	Total	Average Rates
1996						
Assets						*in percent*
Cash resources	131,676	47,500	–	13,569	192,745	3.57
Securities	–	10,500	17,000	(283)	27,217	8.80
Loans						
Fixed	90,039	250,358	979,302	2,335	1,322,034	7.59
Floating	226,452	–	–	–	226,452	6.93
Other	–	9,984	–	7,270	17,254	3.47
Capital assets	–	–	–	22,465	22,465	–
	448,167	318,342	996,302	45,356	1,808,167	6.96
Liabilities						
Deposits	611,491	522,631	443,310	34,238	1,611,670	4.44
Payables and accruals	–	–	–	12,369	12,369	–
Borrowings	20,000	35,000	45,000	–	100,000	6.50
Subordinated notes	–	–	10,000	–	10,000	8.98
Equity	7,592	–	–	66,536	74,128	0.63
	639,083	557,631	498,310	113,143	1,808,167	4.39
	(190,916)	(239,289)	497,992	(67,787)	–	–
Derivatives, net	80,000	–	(80,000)	–	–	–
Net mismatch	(110,916)	(239,289)	417,992	(67,787)	–	–
1995						
Assets						
Cash resources	93,833	64,500	–	15,059	173,392	6.40
Securities	3,000	15,000	39,500	(322)	57,178	8.72
Loans						
Fixed	54,100	246,984	924,608	3,461	1,229,153	8.33
Floating	215,496	–	–	–	215,496	9.72
Other	–	9,276	–	7,238	16,514	3.42
Capital assets	–	–	–	22,794	22,794	–
	366,429	335,760	964,108	48,230	1,714,527	8.17
Liabilities						
Deposits	597,077	434,609	449,381	39,689	1,520,756	5.99
Payables and accruals	–	–	–	8,705	8,705	–
Borrowings	75,000	43,000	5,000	–	123,000	7.98
Equity	2,439	–	–	59,627	62,066	0.33
	674,516	477,609	454,381	108,021	1,714,527	5.90
	(308,087)	(141,849)	509,727	(59,791)	–	–
Derivatives, net	80,000	–	(80,000)	–	–	–
Net mismatch	(228,087)	(141,849)	429,727	(59,791)	–	–

Maturity dates substantially coincide with interest adjustment dates, except as noted. Amounts with floating rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

A significant amount of loans and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

20. Other information

At December 31, 1996 outstanding loans to directors, officers and employees totalled $34,080,000 (1995 – $34,150,000) which included 306 mortgages totalling $30,224,000 and 1,010 other loans totalling $3,856,000.

During the year, directors, in their capacity as directors, received remuneration of $92,000 (1995 – $100,000).

Selected Quarterly Consolidated Financial Data

in thousands of dollars	Dec 31/96	(Restated) Dec 31/95	(Restated) Sep 30/96	(Restated) Sep 30/95	(Restated) Jun 30/96	(Restated) Jun30/95	(Restated) Mar 31/96	(Restated) Mar 31/95
Assets								
Cash Resources	**192,745**	173,392	**183,452**	164,155	**172,989**	174,446	**165,434**	153,765
Securities	**27,217**	57,178	**49,240**	57,167	**54,215**	57,156	**54,191**	57,145
Loans	**1,548,486**	1,444,649	**1,538,240**	1,373,398	**1,528,472**	1,294,342	**1,498,612**	1,264,181
Other Assets	**17,254**	16,514	**17,796**	15,241	**16,148**	16,324	**15,070**	15,898
Capital Assets	**22,465**	22,794	**22,064**	21,067	**22,551**	19,734	**22,756**	18,942
	1,808,167	1,714,527	**1,810,792**	1,631,028	**1,794,375**	1,562,002	**1,756,063**	1,509,931
Liabilities								
Deposits	**1,611,670**	1,520,756	**1,603,516**	1,476,758	**1,583,650**	1,447,633	**1,544,305**	1,376,516
Payables and Accruals	**12,369**	8,705	**9,528**	7,414	**12,994**	10,231	**7,744**	7,887
Borrowings	**100,000**	123,000	**125,000**	87,000	**128,000**	45,000	**140,000**	65,000
	1,724,039	1,652,461	**1,738,044**	1,571,172	**1,724,644**	1,502,864	**1,692,049**	1,449,393
Subordinated Notes	**10,000**	–	–	–	–	–	–	3,000
Shareholders' Equity								
Share Capital	**7,867**	2,646	**7,781**	2,658	**7,211**	2,694	**2,619**	2,719
Retained Earnings	**66,261**	59,420	**64,967**	57,198	**62,520**	56,444	**61,395**	54,819
	74,128	62,066	**72,748**	59,856	**69,731**	59,138	**64,014**	57,538
	1,808,167	1,714,527	**1,810,792**	1,631,028	**1,794,375**	1,562,002	**1,756,063**	1,509,931
Interest Income	**34,361**	35,186	**34,484**	34,103	**34,687**	33,476	**35,030**	31,742
Interest Expense	**22,017**	25,458	**23,885**	24,795	**24,142**	24,040	**25,055**	22,237
Net Interest Income	**12,344**	9,728	**10,599**	9,308	**10,545**	9,436	**9,975**	9,505
Provision for Credit Losses	**549**	124	**253**	135	**120**	122	**109**	85
	11,795	9,604	**10,346**	9,173	**10,425**	9,314	**9,866**	9,420
Other Income	**3,412**	3,167	**3,273**	3,046	**3,174**	2,870	**3,376**	2,892
	15,207	12,771	**13,619**	12,219	**13,599**	12,184	**13,242**	12,312
Non-Interest Expenses	**11,985**	9,847	**10,363**	9,747	**10,611**	10,031	**10,625**	9,434
Net Income Before IncomeTaxes	**3,222**	2,924	**3,256**	2,472	**2,988**	2,153	**2,617**	2,878
Income Taxes	**798**	702	**806**	588	**732**	525	**642**	691
Net Income	**2,424**	2,222	**2,450**	1,884	**2,256**	1,628	**1,975**	2,187
In dollars Earnings per Share	**$0.43**	$0.39	**$0.43**	$0.33	**$0.40**	$0.29	**$0.35**	$0.39

Seven-Year Overview

As at December 31/in thousands of dollars	1996	(RESTATED) 1995	(RESTATED) 1994	(RESTATED) 1993	(RESTATED) 1992	(RESTATED) 1991	1990
Balance Sheets							
ASSETS							
Cash Resources	**192,745**	173,392	149,428	149,692	161,400	143,682	173,184
Securities	**27,217**	57,178	44,873	–	–	–	–
Loans	**1,548,486**	1,444,649	1,221,162	1,056,657	964,559	841,739	697,570
Other Assets	**17,254**	16,514	15,137	15,361	14,708	15,252	19,964
Capital Assets	**22,465**	22,794	18,471	15,412	14,499	13,867	12,591
	1,808,167	1,714,527	1,449,071	1,237,122	1,155,166	1,014,540	903,309
LIABILITIES							
Deposits							
Demand	**303,663**	278,749	271,474	286,273	320,232	333,138	339,382
Term	**785,605**	772,415	652,413	531,320	465,617	378,794	332,947
RRSP	**522,402**	469,592	371,643	313,653	268,781	230,723	199,046
	1,611,670	1,520,756	1,295,530	1,131,246	1,054,630	942,655	871,375
Payables and Accruals	**12,369**	8,705	10,141	10,439	13,127	9,750	4,197
Borrowings	**100,000**	123,000	84,000	45,000	45,000	30,000	3,250
	112,369	131,705	94,141	55,439	58,127	39,750	7,447
Subordinated Notes	**10,000**	–	3,000	3,000	3,000	3,000	3,000
SHAREHOLDERS' EQUITY							
Share Capital	**7,867**	2,646	2,640	2,845	2,898	2,843	2,803
Retained Earnings	**66,261**	59,420	53,760	44,592	36,511	26,292	18,684
	74,128	62,066	56,400	47,437	39,409	29,135	21,487
	1,808,167	1,714,527	1,449,071	1,237,122	1,155,166	1,014,540	903,309
Years Ended December 31							
Income Statements							
Interest Income	**138,562**	134,507	106,397	100,150	102,672	104,696	103,855
Interest Expense	**95,099**	96,530	67,079	64,868	70,983	77,156	82,342
Net Interest Income	**43,463**	37,977	39,318	35,282	31,689	27,540	21,513
Provision for Credit Losses	**1,031**	466	491	492	527	495	559
	42,432	37,511	38,827	34,790	31,162	27,045	20,954
Other Income	**13,235**	11,975	11,591	10,598	10,017	8,692	8,572
	55,667	49,486	50,418	45,388	41,179	35,737	29,526
Non-Interest Expenses	**43,584**	39,059	35,353	32,583	30,537	25,886	22,140
Net Income Before Income Taxes	**12,083**	10,427	15,065	12,805	10,642	9,851	7,386
Income Taxes							
Current	**3,143**	2,050	3,328	3,334	3,425	2,628	1,726
Deferred	**(165)**	456	313	(302)	(1,080)	(385)	(181)
	2,978	2,506	3,641	3,032	2,345	2,243	1,545
Net Income	**9,105**	7,921	11,424	9,773	8,297	7,608	5,841
Financial Statistics							
in percent ASSET GROWTH	**5.50**	18.30	17.10	7.09	13.86	12.31	9.21
in percent LOAN GROWTH	**7.20**	18.30	15.60	9.54	14.59	20.67	13.35
in percent DEPOSIT GROWTH	**6.00**	17.40	14.50	7.26	11.88	8.18	9.55
PERCENTAGE OF AVERAGE ASSETS							
Net Interest Income	**2.45**	2.41	2.97	2.92	2.90	2.87	2.46
Other Income	**0.74**	0.76	0.88	0.89	0.92	0.91	0.99
Non-Interest Expenses	**2.45**	2.48	2.67	2.73	2.82	2.70	2.56
PERCENTAGE RETURN ON							
Average Assets	**0.51**	0.50	0.86	0.81	0.76	0.79	0.68
Average NV Equity	**14.42**	14.02	23.26	24.19	25.83	33.46	35.91
in dollars BOOK VALUE PER NV SHARE	**11.75**	10.54	9.55	7.92	6.49	4.68	3.40
in dollars EARNINGS PER SHARE	**1.61**	1.40	2.03	1.73	1.47	1.35	1.04
in dollars EARNINGS PER SHARE FULLY DILUTED	**1.59**	1.39	2.02	1.72	1.47	1.35	1.04

Corporate Governance

The Board of Directors of Surrey Metro Savings continued its emphasis during 1996 on the development and adoption of policies and procedures essential to effective and prudent operation of Surrey Metro Savings.

Mandate and Responsibilities of the Board

The fundamental objective of the Board of Directors of Surrey Metro Savings is to create value for the members and shareholders, and to protect the value of the Company against erosion. The Board's duties and responsibilities are carried out in a manner consistent with that fundamental objective.

The principal duty and responsibility of the Board is to supervise the management of Surrey Metro Savings, with the day-to-day management of the business and affairs of the Company delegated by the Board to the CEO and other executive officers.

The Board's responsibilities include overseeing the conduct of the Company's business, providing leadership and direction to its management, and setting policies. Long-term goals and strategies for the Company are developed as part of the Board's annual strategic planning process. Through this process, the Board adopts the operating plan for the coming year, and monitors management's relative progress through a regular reporting and review process. The Board identifies the principal risks of the business, and monitors these through established systems, policies, procedures and control mechanisms. Through the CEO, the Board sets standards of conduct, including the general moral and ethical standards for the conduct of the business as a leading financial institution.

Composition of the Board

Our nine-member Board of Directors is elected by the members of Surrey Metro Savings, with one being related. Lloyd Craig, in addition to serving as a director, is the Company's President and Chief Executive Officer. Mr. Craig is not eligible to serve as Chairman of the Board. The eight unrelated directors are independent of management and are free from any interest, business or other relationships that could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company.

Board Meetings and Procedures

There are seven regularly scheduled meetings of the Board of Directors held each year. In addition, a Board/ Management planning session is held to discuss strategic issues. Special meetings of the Board are held as required. Each committee of the Board meets as required to carry out its mandate as described in its terms of reference.

Prior to each Board meeting, the directors receive a comprehensive information package including the agenda, minutes of the previous Board and committee meetings, and material relating to items on the agenda. The Board utilizes a consent agenda process for routine matters in order to free up the Board's time for matters of strategic importance.

The Board has adopted a policy that enables the Board of Directors, Board committees, or an individual director, to engage an outside advisor at the expense of Surrey Metro Savings with the authority of the Governance Committee or the Board of Directors.

Committees of the Board

The Board has six standing committees: Executive, Audit, Human Resources, Conduct Review, Governance, and Investment and Loan. Each committee is comprised of three directors, and the Chair and CEO serve ex-officio on those committees to which they have not otherwise been elected or appointed. Each committee also has available to it as resource such members of management as may from time to time be determined to be appropriate. The Board determines the powers and responsibilities of each committee, and reviews the authority and mandate of each committee annually. The Chair of each Board committee reports to the full Board after each committee meeting.

The *Executive Committee* acts as a sounding board for the CEO on matters requiring Board involvement. This committee also acts in emergency circumstances as required between meetings of the full Board of Directors, and is responsible for representing the Company in certain financial services industry and public relations matters.

The *Audit Committee* assesses, influences, and helps set the tone for quality financial reporting and sound internal controls. The committee reviews the financial statements and recommends their approval to the Board. It also assesses the accounting principles and underlying risks, and assesses the adequacy and effectiveness of internal controls.

The *Human Resources Committee* reviews and assesses the CEO's achievement of corporate objectives, and also analyzes the policies and strategies with respect to the payment of salaries and benefits, incentive compensation, and succession planning, which includes the appointment, training and monitoring of senior management.

The *Conduct Review Committee* ensures that policies and procedures are in place to deal with related party transactions, conflicts of interest, and disclosure of identity to customers as it relates to third-party transactions.

The *Governance Committee* oversees the corporate governance system of Surrey Metro Savings. The committee ensures that the mission and strategic direction of Surrey Metro Savings is reviewed annually and that the Board and its committees carry out their functions in accordance with due process. In addition, this committee assesses the effectiveness of the Board and its committees, and the contributions of each individual director. The committee has the responsibility to address governance issues, and to identify, recruit, nominate, endorse, recommend appointment of, and ensure orientation for new directors.

The *Investment and Loan Committee* is mandated to ensure that the Company adheres to prudent standards in making investment and lending decisions, in giving guarantees and committing the Company to other financial obligations, in writing down the value of investments and loans on its books, and in managing its investments and loans, including its subsidiary companies.

Relationship with and Expectations of Management

The Board has delegated to the CEO and senior management the responsibility for day-to-day management of the business of Surrey Metro Savings. Matters of policy and issues outside the normal course of business are brought before the Board for their review and approval, along with all matters dictated by statute and legislation. The CEO and senior management team review the Company's progress at Board meetings, which are held at least seven times a year. Financial, operational, and strategic issues facing the Company are reviewed, monitored and approved at the Board meetings.

Recruitment of New Directors and Assessment of Board Performance

The Governance Committee of the Board is responsible for assessing the effectiveness of the Board as a whole, and the contribution of each individual director. The committee identifies, recruits, nominates, endorses, recommends appointment of (where applicable) and ensures orientation of new directors. The Governance Committee annually develops criteria which reflect the needs of the Board in recruiting new directors. The committee meets with, interviews and evaluates potential candidates to ensure that the Board is constituted with individuals of diverse background talents and experience and to ensure that when a vacancy occurs, qualified candidates are available.

Shareholder Feedback and Concern

Under the direction of the Senior Vice President, Finance, the Manager of Communications and Investor Relations conducts a shareholder relations program. The program involves providing information with respect to reported financial results and other announcements by the Company to a broad spectrum of investors and other stakeholders. Shareholder concerns of a significant nature are directed to the Senior Vice President, Finance and the CEO, for information and resolve, and management reports to the Board on these matters and other major shareholder and investor matters.

Corporate Information

Board of Directors

Committee membership indicated by numbers following names

H.A. (Bert) Miles[1,2,3]
Chairman
General Manager,
Burnaby Lake Greenhouses Ltd.

Dale M. Mumford[1,5]
Senior Vice Chairman
Principal,
SDM Realty Advisors Ltd.

Bruce H. Chapman[1,2,5]
Vice Chairman
President and CEO
NII Norsat International Inc.

Lloyd M. Craig
President and CEO
Surrey Metro Savings

Gurmant S. Grewal[4,6]
Realtor
HomeLife Benchmark Realty Corp.

Frank L. Harper[5,6]
President
Sphere Financial Ltd.

Tom R. Kirstein[3,6]
Partner,
Kirstein, Neidig and Vance,
Chartered Accountants

Adrienne MacLaughlin[2,4]
Retired

Douglas T. Stone[3,4]
Director of Operations
Corporation of the City of White Rock

Committees of the Board of Directors
1 Executive
2 Governance
3 Human Resources
4 Conduct Review
5 Investment and Loan
6 Audit

Executive Officers

Lloyd M. Craig
President and Chief Executive Officer

Hermann G. Bessert
Senior Vice President, Finance

Robert H. Caldwell
Senior Vice President, Operations

J. Patrick Hagan
Vice President, Information Systems

Kenneth G. Hahn
Vice President, Human Resources

Rodney A. Marr
Vice President, Credit

James E. Miller
Vice President, Marketing

Administration Office

Fourth Floor, 15117 – 101 Avenue
Surrey, BC V3R 8P7

Tel 604 517.7400
Fax 604 517.7405

www.metrosavings.com

Shareholder/Investor Information

Gray Kyles
Manager, Communications and Investor Relations
Tel 604 517.7460

Corporate Secretary

Cyndie Kremyr
Manager, Corporate Administration
Tel 604 517.7403

Registrar and Transfer Information

Montreal Trust Company of Canada
510 Burrard Street
Vancouver, BC V6C 3B9

Auditors

Doane Raymond
Suite 400, 604 Columbia Street
New Westminster, BC V3M 1A6

Stock Exchange Listing

Toronto Stock Exchange (TSE)
Symbol: SMS

Annual Meeting

The 50th Annual Meeting will be held on Monday, May 5, 1997 at 7:30 p.m. at Shannon Hall (Cloverdale Fairgrounds) 6050A – 176 Street, Surrey, British Columbia.

Dividend

Surrey Metro Savings' current policy is to declare semiannual dividends for its Non-Voting Shares payable on December 1 and June 1 to shareholders of record on November 1 and May 1.

Surrey Metro Savings Credit Union

15117 - 101 Avenue
Surrey British Columbia
V3R 8P7